USAID Trade Project

Concept Paper for the Proposed Implementation of the Authorized Economic Operator Program in Pakistan

USAID Trade Project
USAID/Pakistan
Office of Economic Growth & Agriculture
Contract Number: EEM-I-03-07-00005

May 2014

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List of Acronyms and Initialisms	
AEO	Authorized Economic Operator
FBR	Federal Board of Revenue
GoP	Government of Pakistan
HMRC	Her Majesty's Revenue and Customs
PCA	Post Clearance Audit
SAFE	Framework of Standards to Secure and Facilitate global trade
WCO	World Customs Organization
WTO	World Trade Organization

Executive Summary

Customs administrations have seen a dramatic increase in their workload, as trade volumes increase worldwide. To facilitate this continually growing movement, Customs administrations have had to introduce innovative approaches to facilitate trade while ensuring, through managing risk, that those entities that are compliant are rewarded.

The Authorized Economic Operator (AEO) program is one such initiative supported by the World Customs Organization (WCO) which is a trade facilitation program that encourages Customs-to-Business and Customs-to-Customs partnerships.

By adopting and implementing the AEO program, Pakistan Customs will have an effective means of managing regulatory compliance while maintaining a balance between exercising control, facilitating trade, and ensuring resources to deal with non-compliance.

Before embarking on such a program, Pakistan Customs must have a strong Post Clearance Audit (PCA) system in place to ensure compliance of the AEO program. The PCA function is still in its infancy at the Federal Board of Revenue (FBR)/Pakistan Customs and needs to be further developed. Staff deployed to PCA must be retained for a minimum period of time (e.g., three years), and trained to perform systems based audit, which is defined as a structured examination of a business' relevant commercial systems, sales contracts, financial and non-financial records, physical stock, and other assets as a means to measure and improve compliance.

This concept paper has a total of twelve key recommendations for consideration and implementation by FBR/Pakistan Customs Director General. These recommendations address the following areas:
- Enhancing trade facilitation
- Identifying strengths, weaknesses, opportunities, and threats with regard to implementation
- Developing an implementation plan for an AEO Program
- Initiating and sustaining dialogue with trade, the public, press, other Government of Pakistan (GoP) Departments, other Customs administrations, and the WCO
- Human resource policy and staffing levels
- Training and development
- Legislation

An eleven phase implementation plan, in line with international best practice, provides a comprehensive list of activities to be undertaken and outputs to be achieved within a two year period, which is totally reliant on a fully functional operating PCA.

The recommendations and implementation plan included in this concept paper will assist Pakistan Customs in reaching their goal in developing and implementing a trade facilitation program. This will require time, as the implementation is reliant on other areas. Pakistan Customs should at least start building the foundation and aim for implementation within two years. This period will provide adequate time to establish a robust and effective PCA system which will give an assurance on entity compliance. During the interim period, Pakistan Customs should continue development and implementation of processes and procedures which will enhance its role in trade facilitation.

1. Introduction

The concept paper provides an assessment and overview of the current position of Pakistan Customs with regard to trade facilitation and the overall objective of implementing a trade facilitation program (i.e., AEO). It provides recommendations to assist Pakistan Customs in achieving this objective. An overview of the recommendations and benefits is shown at **Annex A**. The report also includes AEO information on its key features, benefits, implementation, and mutual recognition status. Furthermore, the report highlights other AEO programs successfully implemented throughout the world.

The analysis is conducted by the USAID Pakistan Trade Project (Project) at the request of the FBR, and subsequent concurrence by USAID. The Trade Project's work plan Activity 2.3.5.1 requires a concept paper on the AEO program, for possible implementation to support Customs reform and trade facilitation. In addition to this, the concept paper incorporates the following activities:

- 2.3.5.2 – Conduct a gap analysis on trade facilitation arrangements for trading entities by Pakistan Customs
- 2.3.5.3 – Develop a roadmap for implementation of AEO
- 2.3.5.4 – Develop a communications and outreach plan

2. Relationship to Other Strategic Documents

In addition to this document, the Trade project is also supporting the FBR in achieving compliance with the International Convention on the Simplification and Harmonization of Customs Procedures, also known as the Revised Kyoto Convention (RKC), improving its Compliance Management functionality, and performing a gap analysis of the PCA unit.

These technical areas are relevant and will have a substantial impact on implementing a trade facilitation program such as AEO. As such, it is recommended that three additional reports produced by the Trade Project be used as additional references:

- The Revised Kyoto Convention Gap Analysis and Roadmap
- The Compliance Management Gap Analysis and Implementation Roadmap
- Gap Analysis and Implementation Roadmap for the Directorate General of Post Clearance Audit Pakistan Customs

3. Methodology

To facilitate the writing of this concept paper for the proposed implementation of AEO in Pakistan, a gap analysis was undertaken by visiting relevant worksites in Karachi[1] and Islamabad[2].Furthermore, trade bodies such as the Karachi Chamber of Commerce and Industry[3], Karachi Customs Agents Association[4], National Trade and Transport Facilitation Committee[5] and individual Customs Agents were also interviewed.

A detailed list of interviewees and technical topics discussed can be found at **Annex B**.

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[1] A series of meetings took place from March 3-7, 2014 and April 14-17, 2014 in Karachi with Chief Collector Enforcement (South), Collector Appraisement (West) and Additional Collector Appraisement (West), Collector Exports, Director Transit, Additional Collector Appraisement (East) and MIS Officer, Deputy Director Training, Director and Deputy Director PCA, Chief Collector Appraisement (South), Director and Deputy Director Reforms and Automation.
[2] Meeting took place with the Director General Post Clearance Audit in Islamabad on April 11, 2014
[3] Meeting took place in Karachi on April 16, 2014
[4] Meeting took place in Karachi on April 17, 2014
[5] Meeting took place in Karachi on April 18, 2014

4. An overview of the Authorized Economic Operator Program

4.1 Background

Customs administrations have seen a dramatic increase in their workload as trade between countries increases, and is considered an essential driver for economic prosperity. They are required to achieve a balanced approach through risk management and managing compliance and trade facilitation, while maintaining control of the movement of goods, means of transport, and people.

The term 'trade facilitation' is used by institutions that seek to improve the regulatory interface between government bodies and traders at national borders. It is defined by the World Trade Organization (WTO) as: "The simplification and harmonization of international trade procedures where trade procedures are the 'activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade' ".[6]

By introducing risk management as a means of managing compliance, compliant entities can benefit from less physical controls, quicker clearance times and simplified procedures, allowing Customs to concentrate their resources on non-compliant entities and areas perceived as high risk. The effect therefore is punishing those who do not comply and rewarding those that do.

Customs administrations have introduced innovative approaches through development of their own concept or product, or in partnership with companies specializing in packages that comprise or are developed specifically for risk management, designed to facilitate trade and compliance while addressing the needs of the Customs administration when managing risk.

The WCO has designed standards to secure and facilitate the ever-growing flow of goods in international commerce. These standards are set in the Framework of Standards to Secure and Facilitate global trade (SAFE) which was adopted by the WCO Council in 2005. A vast majority of WCO Member administrations have expressed the intention to begin the process of implementing the SAFE Framework provisions.

SAFE sets out a range of standards to guide international Customs administrations toward a harmonized approach based on Customs-to-Customs cooperation and Customs-to-Business partnership. SAFE is based on four core elements:
1) Harmonizing advance electronic cargo information
2) Introducing a risk management approach to address security threats
3) On request of the Customs administration of the receiving nation, the customs administration of the sending nation will perform an outbound inspection of high-risk containers and cargo
4) Definition of benefits that Customs will provide to businesses that meet minimal supply chain security standards and best practices

One of the best examples of this partnership can be found between Customs and the private sector under the AEO Program which is being successfully implemented worldwide. The SAFE Framework defines AEO as:

"a party involved in the international movements of goods in whatever function that has been approved by or on behalf of a national Customs Administration as complying with WCO or equivalent supply chain security standards. AEOs include inter alia manufacturers, importers, exporters, brokers,

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[6] World Trade Organization, (1998) http://gtad.wto.org/trta_subcategory.aspx?cat=33121 (accessed May 20, 2014)

carriers, consolidators, intermediaries, ports, airports, terminal operators, integrated operators, warehouses, distributors"[7].

The AEO Program enhances the security and facilitation of the international supply chain and promotes certainty and predictability in an increasingly competitive global environment. Its objective is to provide businesses with an internationally recognized 'quality mark' which will indicate their secure role in the international supply chain, and indicate that their Customs procedures are efficient and compliant.

The essence of the AEO concept can be found in Customs-to-Business partnerships. Operators can be accredited by Customs as AEOs when they prove to have high quality internal processes that will prevent goods in international transport from being tampered with by:
- Ensuring the integrity of information
- Ensuring the integrity of its employee(s)
- Securing access to its premises

Although the SAFE AEO relates to entities in the context of supply chain security, the precedent derives from the WCO's RKC, General Annex, Chapter 3, which stipulates the following:

For authorized persons who meet criteria specified by Customs, including having an appropriate record of compliance with Customs requirements and a satisfactory system for managing their commercial records, Customs shall provide for:
- Release of the goods on the provision of the minimum information necessary to identify the goods and permit the subsequent completion of the final Goods declaration
- Clearance of the goods at the declarant's premises or another place authorized by Customs; and, in addition, to the extent possible, other special procedures such as:
  - Allowing a single Goods declaration for all imports or exports in a given period where goods are imported or exported frequently by the same person

Therefore, it is imperative that Pakistan Customs develop its Risk Management systems to meet its needs in identifying both compliant and non-compliant trade, implement trade facilitation to meet the needs of the traders who are compliant, and ensure that the traders adhere to the minimum requirements of any trade facilitation initiative.

4.2 Implemented Programs

The majority of WCO members have acceded to the SAFE framework and it is expected that most will introduce AEO programs. The WCO has produced a document 'Compendium of Authorized Economic Programmes – 2014 Edition'.[8] The AEO Compendium consists of five parts dealing with AEO programs based on the WCO SAFE Framework of Standards to Secure and Facilitate Global Trade (Part I), Customs compliance Programmes implemented by Customs administrations (Part II), Customs administrations' experiences of working together with other agencies (Part III), Authorized Operator scheme of the WTO Agreement on Trade Facilitation (Part IV), and Mutual Recognition Agreements/Arrangements of AEO schemes (Part V).This edition of the AEO Compendium identifies 53 operational AEO programs,10 AEO programs that are to be launched, and 13 Customs Compliance programs.

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[7] Mariya Polner, "Compendium of AEO Programmes," *World Customs Organization Research Paper No.8* (July 2010), 6, http://www.wcoomd.org/en/topics/research/activities-and-programmes/~/media/43AC3326904F4887925CBB339C135BFE.ashx (accessed May 22, 2014)

[8] World Customs Organization, "Compendium of AEO Programmes," *World Customs Organization 2014 Edition* (2014), http://www.wcoomd.org/en/topics/facilitation/instrument-and-tools/tools/~/media/B8FC2D23BE5E44759579D9E780B176AC.ashx (accessed May 22, 2014)

In Asia and the Middle East the following countries have implemented AEO/other Customs Compliance programs:

Asia – AEO				
Country	**Date Launched**	**Scope**	**Type of Operator**	**No. of Operators**
China	April 2008	Import/ Export	Importers, exporters, customs brokers	AA (AEO): 2174 A: 25582 B: 483944 C: 930 D: 210
Hong Kong	April 2012	Import / Export	All local operators engaging in international supply chain activities	15 (including one SME)
India	November 2012	Entities involved in supply chain	Entities involved in supply chain	4
Japan	2006 (Exporters) 2007 (Importers)	Import / Export	Importers, exporters, warehouse operators, customs brokers	Importers: 86 Exporters: 239 Customs brokers: 75 Warehouse operators: 111 Logistic operators: 7 Total: 518
Korea	April 2009	Import / Export	Exporters, importers, customs brokers, freight forwarders, transporters (bonded transporters), sea/air carriers, ground handlers, warehouse operators (boned area operators, port terminals)	292 companies authorized: 78 exporters 80 importers 60 freight forwarders 11 warehouse operators 9 transporters 5 sea carriers 49 customs brokers 139 companies are SMEs (as of April 1, 2012)
Malaysia	January 2010	Import / Export	Importers, exporters , Manufacturer	48 companies (as of December 2013)
Singapore	May 2007	Import / Export	All supply chain operators based in Singapore	110 members
Thailand	June 2011 Exporters February 2013 Importers/exporters and Customs brokers	Import / Export	Importers/exporters, Customs brokers	Importers/Exporters : 61 Customs Brokers: 50 Total: 111 operators

Middle East – AEO				
Country	**Date Launched**	**Scope**	**Type of Operator**	**No. of Operators**
Jordan	August 2005	Import / Export	Importers, exporters, carriers, customs brokers, warehouse operators, companies operating in QIZ	44 members

ASIA – Other Customs Compliance Programs				
Country	**Date Launched**	**Scope**	**Type of Operator**	**No. of Operators**
India	November 2005	Importers who have demonstrated capacity and willingness to comply with the laws.	Importers	312 operators accredited (as of February 3, 2014)
Indonesia	2003	Import	Importers	Not Known
Sri Lanka	October 2013	Compliant traders	Importers	100
Vietnam	June 2011	Businesses satisfying specific conditions	1. Businesses eligible for priorities in export and import of all goods items and in all forms of export and import. 2. Businesses eligible for priorities in export of farm products, fisheries products, textile and garment, leather and footwear and import of materials and accessories for production of exports mentioned above. 3. Businesses which are granted certificate of hi-tech businesses by the Ministry of science and technology as prescribed in Law on high technology, eligible for priorities in import of goods in service of production, and export of hi-tech products.	15 businesses are planned to be recognized as prioritized businesses in 2014

Middle East – Other Customs Compliance Programs				
Country	**Date Launched**	**Scope**	**Type of Operator**	**No. of Operators**
United Arab Emirates (Golden list program- Abu Dhabi)	2007	Trusted companies	Trusted companies that have a certain threshold of trade volume in imports and exports, and have a minimum number of contravention or discrepancies in dealing with Customs,	It is anticipated that the total number of beneficiaries from this program is going to reach 200 companies by the end of 2014.

4.3 Mutual Recognition

The WCO's SAFE Framework encourages Customs administrations to develop partnerships with businesses and between each other to secure and facilitate trade. In the context of the WCO's SAFE framework, it also encourages Customs administrations to work with each other and develop tools for mutual recognition of AEO programs and Customs security control standards, control results, and other mechanisms that may be needed to eliminate or reduce redundant or duplicated efforts.

Mutual Recognition is a broad concept embodied within the WCO SAFE Framework whereby an action or decision taken or an authorization that has been properly granted by one Customs administration, is recognized and accepted by another Customs administration. The objective of Mutual Recognition of AEOs is that one Customs administration recognizes the validation findings

and AEO authorizations by the other Customs administration and agrees to provide substantial, comparable, and where possible, reciprocal benefits/facilitation to the mutually recognized AEOs.

Customs administrations and the private sector are aware of the benefits from mutual recognition arrangements. Mutual recognition of AEO programs provides benefits at the Customs-to-Customs level as well as at the Customs-to-Trade level, such as:

- Enhancing Customs-to-Customs cooperation. Through recognizing each other's AEOs, mutual recognition will allow Customs to target high risk consignments more effectively and expedite low risk consignments, which will significantly contribute to the facilitation of legitimate trade
- Improving economic efficiency through reduced time and costs associated with cross-border Customs controls
- Reducing costs and time delays through priority inspections when consignments are selected
- Improving predictability and precision in moving goods from one's own territory to the territory of the trading partner while improving competitiveness of business
- Reducing cargo theft and pilferage by improving the security of the bilateral supply chain
- Enhancing risk analysis and assessment therefore targeting examinations so as to allow non-selected cargo belonging to the same trader to proceed without delay
- Reciprocal or comparable compliance benefits whenever equivalent programs are provided

Furthermore, Customs administrations can expect closer cooperation with third country customs administrations, providing more information on supply chains and high risk consignments, and allowing them to focus their resources on the high risk, resulting in an improved and more efficient use of resources.

In regard to Japan, one of its key tasks was to advance efficiency in distribution through developing partnerships with overseas AEO programs in order to provide mutual benefits, including smoother and more facilitated import/export Customs clearance for economic operators complying with the supply chain security standards. To date, Japan Customs has signed mutual recognition of AEO programs with New Zealand (May 2008), the United States (June 2009), the European Union (EU) and Canada (June 2010), Korea (May 2011), and Singapore (June 2011). Japan is currently negotiating with China and Malaysia.

An overview of mutual recognition arrangements/agreements is shown below;

Mutual Recognition Arrangements/Agreements			
WCO Region	**Country**	**Signed**	**In negotiation**
Americas and the Caribbean	Canada	4	0
	United States	6	1
	Mexico	1	0
Middle East and Northern Africa	Jordan	1	0
Asia Pacific	China	1	3
	Hong Kong, China	3	1
	India	0	1
	Japan	6	2
	Korea	7	2
	Malaysia	0	1
	New Zealand	3	1
	Singapore	4	2
Europe	Andorra	1	0

	EU	5	1
	Israel	0	1
	Norway	1	1
	Switzerland	1	1

Despite the benefits from mutual schemes there remain some obstacles: the mutual recognition program is still developing and is in its infancy. Such obstacles may include the absence of a regional policy; the absence of a legislative framework and bilateral/multilateral agreements; inadequate baseline information about businesses, their classifications, the nature of their operations, and their financial management practices; inadequate infrastructure and technology to support Customs-to-Business partnerships; and inadequate human resources to implement AEO strategies.

Notwithstanding the challenges, constraints, and obstacles, the benefits for both Customs and Trade through mutual recognition will only serve to improve the efficiency and effectiveness of their controls and operations while ensuring that compliant trade is not hindered and resources can be targeted against non-compliant trade.

4.4 Advantages and Disadvantages

The advantages of having AEO status can be separated into three distinct areas: direct benefits, indirect benefits, and special benefits dependent on the country. All benefits should be meaningful, measurable, and reportable.

Direct benefits may include fewer physical and document-based controls, easier admittance to customs simplifications, reduced data required for summary declarations, priority treatment of consignments selected for customs control (e.g., physical examination).

Indirect benefits may include greater efficiency within internal systems, procedures, and processes. The entity will be recognized as a secure and safe business partner (some entities may only want to do business with certified entities as they will be acknowledged as trustworthy and reliable), not just in Pakistan but other countries, through mutual recognition. This may result in lower costs for the entity, improved efficiency, and reduced time in the overall supply chain.

Furthermore, relationships with Customs and other GoP Departments will improve.

Attaining AEO certification may require additional financial outlay for an entity. This may involve updating procedures, improving security, training staff, and upgrading systems within the organization. Furthermore, the period of time required to perform any changes may be significant.

5. Pakistan Customs –Trade Facilitation

Discussions were held with Senior Management of Pakistan Customs who confirmed that Pakistan Customs do not have any formal or structured trade facilitation programs in place. They agreed that Pakistan Customs should implement a trade facilitation project as a matter of priority. Furthermore, trade bodies such as the Karachi Chamber of Commerce and Industry, Karachi Customs Agents Association, National Trade and Transport Facilitation Committee, and individual Customs Agents who were interviewed, also confirmed that there are no trade facilitation programs in place with respect to Customs.

Customs administrations worldwide have a major role to play in trade facilitation, which is the simplification and harmonization of trade procedures, including import and export procedures. AEO programs such as China's, a main trading partner of Pakistan, should be studied. This would provide Pakistan Customs with a greater understanding of the concept and associated benefits.

For Pakistan Customs to meet its obligation in terms of the WCO SAFE Framework agreement[9], it must strive to implement trade facilitation, ensuring that within its own organization it has systems fully capable of identifying risk and can give an assurance that entities that operate within Customs' sphere are compliant.

It is essential that part of this process is an effective and efficient post-clearance control and audit service which will allow Pakistan Customs to implement its tasks (clearance and control of goods, revenue collection) and to facilitate trade, by keeping a balance between trade facilitation and efficient customs control.

At the time of writing this concept paper, FBR's PCA department did not have a strategy document or an annual plan; there was a lack of experienced and trained staff (currently PCA has been allocated 100 positions but approximately 30 are staffed); and PCA is awaiting the functionality of the Web Based One Customs (WeBOC) to be expanded to meet its requirements. In conclusion, the FBR's PCA is in its infancy compared to other PCA departments worldwide.

PCA exclusively concentrates on transaction-based control using the automated declaration processing system WeBOC to identify transactions for 'desk' documentary audit checks. This entails PCA checking a General Declaration, including all accompanying paperwork (e.g., invoices). In reality they are performing the same check as those Customs staff performing a documentary control, yellow lane, as selected by WeBOC.

This restriction is based on WeBOC not allowing the system to be interrogated by entity, but requires use of other areas within the General Declaration (e.g., Harmonized System Tariff commodity codes). Furthermore, PCA does not undertake any visits to an entity's premises as per best practice where staff should be conducting a structured examination of a business' relevant commercial systems, sales contracts, financial and non-financial records, physical stock, and other assets as a means to measure and improve compliance.

PCA has to fundamentally change their working practices in order to be able to assess whether an entity is compliant or not before considering that entity for AEO status. The Gap Analysis and Implementation Roadmap for the Directorate General of Post Clearance Audit Pakistan Customs recommends the following areas be addressed:

- Update the current PCA audit manual
- Introduce Strategic Planning and Reporting documents for the Directorate as a whole and for regionally-based audits
- Improve policy and procedures in use by PCA to reflect the strength of existing law
- Increase human resource capacity, recruit specialists, and commit to maintain staffing levels according to the approved number of positions
- Ensure that systems-based audit and computer-based audit training is developed and delivered
- Implement customs technical training (e.g., valuation) for PCA staff
- Increase cooperation and information-sharing between Customs Directorates, the FBR, and other government agencies
- Increase the use of Risk Management and implement Compliance Management

6. Pakistan Customs Imports / Exports Overview

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[9] Pakistan joined the World Customs Organization on November 16, 1955 and adhered to the WCO SAFE Framework agreement which was adopted by the WCO council in June 2005.

Pakistan is a rapidly developing country which has the potential to be counted among the world's largest economies in the 21st century, along with Brazil, Russia, India, and China.

Pakistan is one of the largest exporters of textile products in the world. Other main exports include cotton yarn, woven cotton, woven fabrics, apparel, cereals and chemicals.[10] Pakistan's main trading partners in regards to exports are the US, China, UAE, Afghanistan, and the UK.[11]

Imports include petroleum and its products, machinery, plastics, edible oils, paper and paperboard, iron, steel, and tea.[12]Pakistan's major import partners are the UAE, China, Saudi Arabia, Kuwait, Malaysia, and Japan.[13]

Since the implementation of Pakistan Customs' automated system Web Based One Customs (WeBOC) in 2011, the system has processed the following number of general declarations:

General Declarations Processed by WeBOC				
Imports	**Exports**	**Warehousing**	**Transshipments**	**Transit**
646402	725673	8301	26099	582

The system currently caters to 40,401 registered users across Pakistan, with over 33,553 traders, 4226 clearing agents and 1815 customs officials making use of the service. Other users include warehouse keepers, shipping agents, bankers, terminal operators, airlines, and bond handling authorities.

The risk management system within WeBOC presently allocates general declarations to either green (free circulation), yellow (documentary check), or red (physical examination) lanes. The latest statistics supplied by Pakistan Customs, in terms of general declarations being allocated to green, yellow, and red lanes are shown below.

Risk Management System – Allocation of General Declarations			
Type / Allocated	**Green**	**Yellow**	**Red**
Imports	25 %	49 %	26 %
Exports	70%	12%	18%

Statistics showing the main importers who may be responsible for the majority of the revenue, and the main exporters, were requested during the visit to Karachi but not obtained. These statistics may assist Pakistan Customs in identifying potential entities for an AEO pilot phase.

Recommendation 1
It is recommended that Pakistan Customs identify the main importers and exporters who are responsible for the majority of import revenue/export declarations to ascertain possible candidates for an AEO program.

The implementation of a trade facilitation program by Pakistan Customs should see a decrease in consignments being allocated to yellow and red lanes, with a substantial increase in those allocated to the green lane.

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[10] Information obtained from Karachi Chambers of Commerce & Industry – KCCI Country Wrap (November 2013)

[11] Pakistan Bureau of Statistics, "Cumulative exports by major countries (July 2013 – October 2013)," (2013), www.pbs.gov.pk/trade-tables (accessed May 15, 2014)

[12] Information obtained from Karachi Chambers of Commerce & Industry – KCCI Country Wrap (November 2013)

[13] Pakistan Bureau of Statistics, "Cumulative imports by major countries (July 2013 – December 2013)," (2013), www.pbs.gov.pk/trade-tables (accessed May 15, 2014)

Statistics from other Customs administrations confirm that implementing a robust risk management system combined with inland controls (e.g., PCA) can minimize the number of consignments requiring physical examination.

The EU statistics are shared between member states and are not usually published. In the "United Kingdom National Audit Report, HM Revenue and Customs, the Control and Facilitation of Imports 2008", figures were published but not for each individual member. The UK reported to the EU that its rate of examination in 2007 was 0.1 percent. Compared against the 27 countries of the EU, the EU average for 2007 was 9.1 percent with a median of 7.6 percent.[14]

The New Zealand Customs Service statistics for 2011 state that 96.6% of import transactions and 99.3% of export transactions that were deemed compliant based on risk assessment proceeded without further intervention.[15]

7. Pre-Implementation of AEO

7.1 Interim Measures

Though the focus will be on the implementation of the AEO Program, Pakistan Customs should not ignore the development and implementation of trade facilitation in the interim period, until agreement has been fully reached and coordinated implementation achieved, while securing revenue.

Pakistan Customs can focus on improving its risk management system to reduce clearance times for import and export consignments, enhance simplified procedures for both imports and exports, improve transparency, improve communication and enhance co-operation with other Government Departments, implement pre-arrival processing, and improve compliance among the trade and customs agents emphasizing their legal and moral responsibilities.

Recommendation 2
It is recommended that Pakistan Customs ensure that a balance is reached between resourcing the AEO program while still exploring and implementing other trade facilitation initiatives.

7.2 Implementation / Road Map

An AEO program must be fully supported by the GoP, Chairman FBR, and Member Customs which will give the program credibility, provide tangible support to the team developing the program, and ensure that all Customs officers understand the importance of the program. Furthermore, the program will require funding and resources to meet deliverables for implementation.

The AEO Program is open to all economic operators, regardless of the size of the entity, including small and medium-sized enterprises. This includes importers, exporters, customs agents, warehouse keepers, and freight forwarders. If an entity is made up of a 'group' structure and the group is set up as more than one legal entity (i.e., each subsidiary is a different legal entity), then each subsidiary of the entity is required to submit a separate application.

AEO Implementation Guidance has been produced by various organizations; each country must tailor the implementation plan to their specific requirements and confront various challenges in reaching the

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[14]National Audit Report, "HM Revenue and Customs-The Control and Facilitation of Imports 2008," (November 7, 2008), http://www.nao.org.uk/press-releases/hm-revenue-customs-the-control-and-facilitation-of-imports-2/ (accessed May 15, 2014)

[15]New Zealand Customs Service, "Output class – Clearance and enforcement services related to goods, (2010), http://www.customs.govt.nz/news/resources/corporate/annualreport2010-2011/partb-customsperformance2010-11/statementofserviceperformance/Pages/outputclass-clearance-goods.aspx (accessed May 16, 2014)

goal of implementation. In the design and implementation of an AEO Program, certain principles and conditions must be adhered to. These include: compliance with international standards and guidance from best practices, the prioritization of either imports or exports, the present relationship of Customs-to-Business partnerships in the country, and the level of professionalism and integrity displayed by the Customs administration.

The "USAID Customs Modernization Handbook – Authorized Economic Operators Programs" (**Annex C**) and the WCO guide "How to Develop an AEO Program"[16] can assist Pakistan Customs in formulating an implementation plan. A draft implementation activity plan/roadmap is produced at **Annex D**. This draft can be further populated by the AEO Project Implementation Team. It must be stressed that before any dates are allocated to a phase, the start date is wholly dependent on Pakistan Customs having an effective PCA Directorate and a fully functional risk management unit to ensure entity compliance.

The above-mentioned documents highlight the main areas that should be addressed to reach successful implementation. They assume that Customs already has in place a system (PCA) that can give an assurance on whether an entity is compliant. In essence, Customs will take a risk-based approach to ensure that the entity is compliant with customs requirements, has appropriate record keeping, is financially solvent, and has taken appropriate security and safety measures.

Any implementation plan should incorporate essential building blocks for the outcome to be successful. It may be prudent for Pakistan Customs to perform a SWOT analysis, which would highlight its strengths, weaknesses, opportunities and threats in regard to implementing an AEO program. The design and implementation of an AEO program are complex and time-consuming. The best way to design an AEO program is to establish collaboration between partners in the public and trade sectors. This collaboration entails the formation of two groups: a project implementation team composed of Customs officers (e.g., Director Post Clearance Audit, Director Human Resources, Director Reform and Automation (WeBOC), and Senior Customs Audit officers) and a working group of representatives of the trade and other government agencies with responsibilities relating to imports and exports.

Recommendation 3
It is recommended that Pakistan Customs form a project implementation team who will devise an implementation plan taking into consideration WCO best practice and other country's experiences.

Recommendation 4
It is recommended that Pakistan Customs perform a SWOT analysis to highlight its strengths, weaknesses, opportunities, and threats in regard to implementing an AEO program.

These groups will drive the program through a series of phases as listed below. A draft timeframe is shown for the implementation of each phase but final implementation is totally dependent on Pakistan Customs' ability to give an assurance that an entity is compliant. As stated previously, a detailed Implementation AEO Activity Plan/Roadmap is shown at **Annex D**.

AEO Pre-Phase
1)   PCA fully staffed and is conducting entity audit
2)   WeBOC PCA Module fully functional and meets the requirements of PCA

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[16] World Customs Organization, "AEO Implementation Guidance: How to Develop an AEO program," (May 2010), http://www.wcoomd.org/en/topics/facilitation/instrument-and-tools/tools/~/media/4448CE5B00DB422FA89A29AA447A4F22.ashx (accessed May 16, 2014)

AEO Pre-Implementation			
Time frame	**AEO Phase**	**Communication / Outreach**	**Other**
Days 1 – 45	**Phase 1** Establish Project Implementation Team	• Initial press release outlining AEO • Instigate dialogue with WCO	
Days 45 – 80	**Phase 2** Establish an AEO Working Group	• Possible AEO Study tour and/or visit by WCO • Press release on AEO Working Group	
Days 45 – 80	**Phase 3** Define the Project		
Days 80 – 100	**Phase 4** Draft Project Implementation Plan		
Days 100 – 150 * *timeframe is subject to change for draft legislation to be reviewed, accepted, and approved	**Phase 5** Define AEO requirements including amending/updating legislation	• Press release announcing AEO criteria/requirements to participate	Other GoP Departments affected by AEO to review current legislation
Days 100 –150	**Phase 6** Define AEO Benefits	• Press release announcing AEO benefits	
Days 150 –180	**Phase 7** Design the AEO Application Process		
Days 180 – 220	**Phase 8** Recruit/Train Customs Officers in AEO Supply Chain Security		
Days 220 – 260	**Phase 9** Announce and Promote the AEO Initiative	• Press release promoting AEO and advising on next phase (pilot/implementation) • Awareness seminars within Customs/ other GoP Departments • Awareness seminars with trade community and general public • Initial contact with other Customs Administrations on mutual recognition	

Pakistan Customs must also incorporate AEO data within WeBOC to ensure that through the Risk Management Unit, an AEO operator is given a 'low score' which will determine the frequency of Customs physical and documentary checks. Those entities that do enroll in the AEO Program must be aware that examinations of their consignments may take place under the 'random' selection criteria.

As stated earlier, the AEO Program is open to all economic operators. The status that is granted may differ depending on the entity. For example, in China, the AEO program has five categories: Class AA, A, B, C, and D. The criteria for assigning the category will take into account the level of compliance with laws, regulations, Customs rules, relevant anti-corruption provisions, operational and managerial performance, status of safety and security, and records kept in relation to Customs control.

Those entities meeting the requirement for the highest status (i.e., AA) will benefit from trust release, nominated Customs officers to help coordinate and resolve customs issues, and lower examine rates for their import/export consignments.

It would be prudent of Pakistan Customs to initiate and maintain dialogue with the WCO as the project develops, as any issues/problems that may arise during pre-/post-implementation can be discussed with the WCO.

Recommendation 5
It is recommended that Pakistan Customs initiate and continue to maintain dialogue with the WCO through the implementation process.

In addition to entering dialogue with the WCO and taking into consideration the documents attached, the following documents should also be used as a source of reference:
- Asia-Pacific Economic Cooperation – Authorized Economic Operator Compendium
- European Commission, Authorized Economic Operators – Guidelines (2012)
- European Commission, Authorized Economic Operators – The AEO Compact Model (2006)
- European Council Regulation 648/2005 and European Commission Regulation 1875/2006 (Legal basis in European Union)
- Her Majesty's Revenue and Customs (HMRC), Public Notice 117 – Authorized Economic Operators
- Private Sector Consultative Group – AEO Benefits
- WCO, Model AEO Appeal Procedures
- WCO, The AEO and the Small and Medium Enterprise (2010)
- WCO SAFE Framework of Standards Authorized Economic Operator Guidelines – I. Conditions, Requirements, and Benefits

8. Implementation Best Practice

8.1 Communication/Outreach Plan
It is essential that FBR launch an outreach campaign announcing the AEO Program and its commitment to facilitating the movement of legitimate shipments. The importance of this cannot be underestimated. For a voluntary AEO Program to work, Customs must have the support and participation of stakeholders. Therefore, it must promote the AEO Program within Customs and among other government stakeholders, as well as with the trade community and other interested parties. For this reason, the FBR should assume primary responsibility for outreach. This should be performed by the FBR public information office in cooperation with the AEO project implementation team and working group.

The communications/outreach plan should be incorporated within the implementation plan stating the roles and responsibilities of those involved in this area. Overall responsibility for this area will be ultimately tasked to the AEO Implementation Team Project Manager.

Recommendation 6
It is recommended that the FBR launch a communications program to advise and promote the AEO program in consultation with stakeholders.

8.2 Other GoP Departments
Other GoP Departments that have import or export requirements, such as the Plant Protection and Animal Quarantine Department, must fully understand how an AEO program will affect it. Simplified procedures are not just a Customs concern; other government agencies' concerns and processes must be factored into the program, and any issues resolved.

Recommendation 7
It is recommended that Pakistan Customs, at the beginning of the AEO program, enter into dialogue with other GoP Departments whose work may be impacted by an AEO program.

8.3 Trade, Public, and Press

Any outreach program must also interact with trade, the general public, and the press to explain and emphasize the benefits of AEO and how participation in the program will benefit an entity by simplifying processes, enhancing supply chain security, and improving voluntary compliance. Furthermore, the FBR communications center, in consultation with the AEO implementation team and working groups, should coordinate the publication of information sheets/brochures, and to develop and deliver AEO awareness seminars for the trade. Through these communication pathways, Customs will be able to address the benefits of voluntary participation in the program. It is imperative that Pakistan Customs express its commitment to this initiative by developing and implementing a series of events, for the trade, that cover those areas which have a major impact on non-compliance. If an entity or stakeholder involved in Customs matters is fully aware of their obligations, there should be an increase in compliance.

Recommendation 8
It is recommended that FBR (Pakistan Customs) implement an outreach program that will socialize the benefits of the AEO program through information sheets/brochures and awareness seminars.

Pakistan Customs must ensure that a proactive and positive working relationship is established with the trade. Those who doubt that meaningful benefits will result from an AEO program will doubt a partnership can be developed. An AEO Program can facilitate the transition from mistrust to mutual respect. It terms of the trade, this will be demonstrated through a continued record of compliance and reporting non-compliance, good communications, and a willingness to collaborate. In turn, Pakistan Customs will strive to be transparent, consistent, to communicate with the trade, and to retain employees that behave ethically and demonstrate respect.

Through outreach, training, and emphasizing compliance, Pakistan Customs can develop cooperation, gain the commitment of Pakistan's main importers/exporters, and demonstrate that compliance is rewarded. This in turn will raise awareness and the AEO Program will develop in size and impact.

8.4 Legislation and Guidelines

Though highlighted in the implementation process, it is essential that the criteria required for AEO status is defined in legislation. The Pakistan Customs Act 1969 will have to be updated to include new provisions for AEO law and regulations.

The legislation will include: the definition of an AEO, the application process (including non-approval and appeal processes), clear timelines that need to be met by the Customs administration in the decision-making process, and the powers of Customs officers.

Recommendation 9
It is recommended that the Pakistan Customs legislation is updated to incorporate the new provisions for AEO.

AEO guidelines would also have to be drafted, approved, and implemented for both Customs and trade, which will highlight the relevant sections of the Customs legislation.

Recommendation 10
It is recommended that the AEO implementation team ensure that AEO guidelines are drafted, approved, and implemented.

GoP Departments that will be directly impacted by the AEO Program may have to review their existing legislation. Change may be necessary in terms of presentation of documents, records to be kept, etc.

Recommendation 11
It is recommended that the Project Implementation Team initiate early discussions with those GoP Departments impacted by AEO, so that the Departments can review their existing legislation and amend, if necessary, to meet the requirements of the AEO program.

8.5 Application Process

As stated previously, it is essential that Pakistan Customs draft and implement AEO guidelines which will explain in detail the benefits of AEO status, an understanding of the legal provisions, the criteria that needs to be met, the application process, how Pakistan Customs will review and check the application, and how the decision is then taken to grant AEO status. The guidance will also outline how AEO status will be managed by Pakistan Customs. The development and implementation of guidelines will ensure transparency and equal treatment of economic operators.

The AEO status criteria typically required includes:

1) **Customs Compliance:** to meet this criterion no serious infringements or repeated infringements of Customs rules should have been committed recently (e.g., during the last three years) by the applicant, the person in charge of the applicant company or exercising control over its management (if applicable), the applicant's legal representative in customs matters, or the person responsible in the applicant's company for customs matters.
2) **Record Keeping:** to meet this criterion, the applicant should display satisfactory commercial, and where appropriate, transport records, which will allow appropriate customs controls.
3) **Financial Solvency:** to meet this criterion the entity must be of good financial standing, sufficient to fulfill the commitments of the applicant, with due regard to the characteristics of the type of business activity. The applicant should prove solvency for a period of time (e.g., previous three years). If the entity has existed for less than the required period of time, the entity will be judged on the basis of information and records available at the time of application.
4) **Security and Safety:** the applicant should meet a set of conditions related to building security, access controls, cargo security, procedures for handling export/import licenses, business partner security, and personal security. The applicant should demonstrate a high level of understanding about security and safety measures.

The application process for the entity will involve a number of stages:

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┌─────────────────────────────────────┐
│         Preparation process          │
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                  ↓
┌─────────────────────────────────────┐
│       Submitting the application      │
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┌─────────────────────────────────────┐
│    Preliminary check and acceptance   │
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                  ↓
┌─────────────────────────────────────┐
│              Full check               │
└─────────────────────────────────────┘
                  ↓
┌─────────────────────────────────────┐
│       Final report and decision       │
└─────────────────────────────────────┘
                  ↓
┌─────────────────────────────────────┐
│         Maintaining AEO status        │
└─────────────────────────────────────┘
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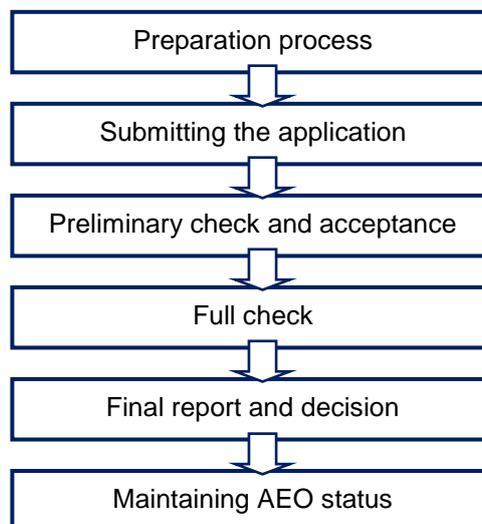
To prepare for the process of applying for AEO status, Pakistan Customs should produce a self-assessment questionnaire for the entity. An example of one used by HMRC is produced at **Annex E**. This questionnaire will enable the entity to judge whether they are ready to apply for AEO status, and if not, what areas need to be addressed.

The entity will have to complete an application form. An example of one used by HRMC is produced at **Annex F**. The entity should also provide an overview of its supply chain in the form of a process map, and provide a site plan of the premises.

On completion of the application form, the entity will submit it to Pakistan Customs, which will conduct preliminary checks, upon receipt, to ensure that all relevant information is present, and decide whether to accept the application.

If the application is accepted it will be subject to a full check. This involves Customs performing a risk analysis to evaluate the likelihood and impact of risks on Pakistan Customs' objectives, and an evaluation of the entity's ability to avoid, mitigate, or address these risks.

An audit of the entity's business operations will be undertaken to obtain a reasonable assurance that the applicant is compliant within the established criteria. The higher the risk, the higher the level of scrutiny.

After completion of the risk analysis and audit, the results are documented and a final report prepared. The report will include an overview of the applicant, its business, its role in the supply chain, business model, and customs-related activities. There will also be a detailed description of all risk areas considered, checked, and any remedial action suggested to the applicant. The report will also highlight any comments/views expressed by the applicant and a clear recommendation as to whether AEO status be granted. If AEO status is not granted, the report must include a complete and detailed justification as to why, and this should be communicated to the applicant. In this situation the applicant has the right of appeal.

8.6 Human Resource Policy and Staffing Levels

The success of the AEO Program is dependent upon Pakistan Customs having a robust human resource policy that can ensure staffing levels will be agreed to and maintained to guide the AEO Program through pre- and post-implementation. This project implementation team will be responsible, in consultation with the Human Resource Directorate, to propose adequate staffing levels for the AEO Program to be successful.

Furthermore, the success of the AEO Program will also depend on Customs staff's understanding of the program and their willingness to support it. Senior managers and the project team must brief staff on the AEO concept, the role of Customs in supply chain security and voluntary compliance.

8.7 Training and Development

Training and development will have a major impact on the AEO Program, as Customs Officers involved in any aspect that affects the AEO Program need to develop a core set of skills to adequately perform their duties. In addition to being in a position for a recommended minimum period of time, training (as described through the recommendations stated in the Training Needs Analysis (TNA) Report - Compliance Risk Management Pakistan Customs), and a focus on other areas such as Harmonized System Tariff, Valuation, and Rules of Origin should be mandatory.

Recommendation 12

It is recommended that staff awareness programs are implemented and that those directly involved are given adequate training to develop their core skill set. A minimum period of time in post is recommended for implementation.

8.8 AEO Certification

Validity, renewal, and withdrawal of AEO status must be clearly defined within the legislation and guidelines. The certificate should be valid for a period of three years. The entity can renew its certification by writing to the appropriate Directorate within the Customs administration six months before the expiry of its AEO status. Likewise, the entity can lodge a written request for withdrawal from the AEO Program at any time. The AEO status and associated benefits will be removed upon its withdrawal.

The entity will still be subject to periodic checks by the Customs administration to ensure that it continues to meet the requirements of the AEO criteria. The accredited entity should ensure the maintenance of appropriate standards granted in the AEO certification. Non-compliance with the standards should be reported to the Customs administration. Any changes to the entity's business that may affect its AEO status should be notified as well.

The Customs administration may suspend a company's AEO status in the event of issues such as non-compliance with the criteria for AEO certification, existence of non-rectified security weaknesses, or a Customs offense. In addition, an AEO status can be revoked if the entity fails to make the necessary changes after a suspension of status or has committed a serious Customs offense. Upon revocation, the entity will have its AEO status and associated benefits removed, and may not reapply for AEO certification within a specific period of time (e.g., two years).

9. Post-Implementation of AEO

9.1 Post-Implementation Phases

Post-implementation involves two phases in addition to the nine stated in the pre-implementation stage, which will eventually see the AEO implementation team hand over responsibility to the appropriate Directorate within Customs. This milestone assures that Pakistan Customs has implemented all requirements of the pre-implementation phase, and that PCA is able to give an assurance that entities are compliant (and have been over a period of time).

AEO Post-Implementation			
Time frame	**Phase**	**Communication/ Outreach**	**Other**
Days 1 - 180	**Phase 10** Pilot Implementation	• Press release announcing AEO pilot implementation	PCA/AEO Implementation Team liaise with those selected for pilot phase
*subject to successful pilot phase	**Phase11** Implementation	• Press release announcing AEO implementation	Customs Directorate/PCA review applications for AEO status

9.2 Pilot Implementation

The project team, after successful completion of all tasks related to the implementation plan, will be in a position to move forward to the pilot implementation phase.

This phase, in consultation with the PCA and risk management unit, will identify those entities that are responsible for most general declarations, the highest value, and greatest revenue contribution. Furthermore, those entities identified should also have a satisfactory level of compliance over a minimum period, such as 12 months.

Pilot testing should include a representative sample of entities from different industry areas that are the most compliant, have the highest volume of transactions, and through PCA, have the most effective internal systems. Those participating in the voluntary pilot phase should ideally be located within the same location as the AEO working group for ease of dialogue and to resolve any issues/ problems that may occur.

It is essential that the AEO working group reiterate the requirements and benefits of the program to those entities participating. In consultation with the Customs Training and Development Directorate, the AEO working group will develop and provide training on the AEO Program to those entities.

The AEO working group and implementation team will determine the period of the pilot phase. This should be for a period of three to six months. During this period the AEO group will monitor the performance of the entity and identify any changes that are required (e.g. policies, procedures). At the end of the pilot phase the AEO working group will submit its findings to the FBR Director General with recommendations. Ideally, the report should state whether the AEO Program can be expanded to the implementation phase.

9.3 Implementation

After conclusion of the pilot phase, implementation of the program can begin, with the AEO working group proposing the rate of expansion. This will include Pakistan Customs' advertising the success of the pilot phase and inviting entities to apply to participate in the program.

At this point, the permanent management of the program will be fully transferred from the AEO implementation team to the Customs Directorate responsible for all aspects of the AEO Program; however, the AEO working group will continue to oversee the program and become a focal point for any trade input.

9.4 Mutual Recognition Arrangements

Mutual recognition between countries operating AEO is still being developed, as referred to in 4.3. To participate, a Customs administration must be able to demonstrate that it has an established AEO program which is effective and gives an assurance that those entities participating in the program are established, compliant, and are of standing to do business worldwide. When this position is reached, Pakistan Customs may wish to pursue mutual recognition with some of its main trading partners who have successfully implemented AEO Programs, such as China.

10. Conclusion

Paperless trading is expected to become common practice across all sectors in the future. The extent to which this practice is adopted will increasingly depend on the influence, interest, and capacity of overseas governments, domestic government agencies, and supply chain partners. Increasing import and export volumes may impact widespread adoption of paperless trading in Pakistan supply chains.

More companies will have integrated supply chains, enabling data to be available earlier for cargo reporting and risk assessment. There will be greater industry consolidation with larger service providers and companies offering end-to-end logistics solutions or integrated door-to-door services; however, industry practices and their supply chain interactions will remain diverse.

This Concept Report identifies the areas needing improvement, through specific and achievable recommendations, in order to implement an AEO Program. It will require strong leadership and cooperation among key stakeholders to strengthen the PCA Directorate, enhance trade facilitation, adopt and implement a robust human resource policy, develop and implement the required training, and ensure legislation meets the needs of the program.

By adopting and implementing AEO, Pakistan Customs will have an effective means of managing regulatory compliance while maintaining a balance between exercising control, facilitating trade, and allowing resources to be diverted to non-compliance.

Until an agreement has been fully reached and coordinated implementation achieved, interim measures(such as adequately resourcing and implementing effective entity-based Post Clearance Audit, reviewing current risk profiles, reviewing trade compliance, reviewing deployment, reviewing tasking of intelligence and investigation staff, and implementing dialogue with stakeholders including trade)should be implemented to prevent leakage of revenue, reduce clearance times for imported goods, prevent an increase in goods being examined, improve trade facilitation, address the import of prohibited goods, and target non-compliance.

Implementation should ideally be achieved within two to three years. This will depend on when Pakistan Customs has the facility to give an assurance on entity compliance, as an AEO program usually requires a minimum of two to three years' compliance for an entity to apply.

These proposals will encourage Pakistan Customs to be proactive and adopt a professional approach using internationally recognized methods and standards to facilitate compliant trade, thereby optimizing collection of revenue and creating a positive impact on Pakistan's future growth.

Annex A: Recommendations and Benefits

	Recommendations and Benefits	
No.	**Recommendation**	**Benefits**
1	It is recommended that Pakistan Customs identify the main importers and exporters who are responsible for the majority of import revenue/export declarations to ascertain possible candidates for an AEO program.	• The entity is likely to have a higher level of compliance • The entity is likely to have established procedures and systems in place • The entity is likely to have staff experienced in dealing with Customs matters, including existing legislation • Multi-national entities may have experience with AEO or other trade facilitation programs • The entity is more likely to participate in a trade facilitation program
2	It is recommended that Pakistan Customs ensure that a balance is reached between resourcing the AEO program while still exploring and implementing other trade facilitation initiatives.	• Customs will be able to provide alternative solutions, therefore allowing the trade options • Most suitable Customs staff selected • Customs staff will increase their level of knowledge and expertise in the trade facilitation field • A decrease in the number of consignments examined as trade facilitation measures are implemented • A reduction in frontier controls and an increase in inland controls resulting in a reduction of time for the supply chain • Trade bodies are more likely to cooperate with Customs if Customs is proactive
3	It is recommended that Pakistan Customs form a project implementation team that will devise an implementation plan, taking into consideration WCO best practice and other countries' experiences.	• Effective and efficient team to drive the project • Ensure best practice is adopted and implemented • If resourced properly, staff will increase their knowledge of trade facilitation/AEO resulting in an increased likelihood of success
4	It is recommended that Pakistan Customs perform a SWOT analysis to highlight its strengths, weaknesses, opportunities, and threats with regard to implementing an AEO program.	• Ensure that weaknesses/threats are identified and can be addressed at an early stage of the implementation phase • Allow Customs to identify and work to its strengths
5	It is recommended that Pakistan Customs initiate and continue to maintain dialogue with the WCO throughout the implementation process.	• Receive guidance and assistance from the WCO • WCO can be used to link Pakistan with other countries that have successfully implemented AEO • Attend WCO forums on AEO and exchange experiences / information
6	It is recommended that the FBR launch a communications program to advise and promote the AEO program in consultation with stakeholders.	• Encourage stakeholders to be part of the implementation process • Ensure that the trade is aware of the program, including its benefits • Highlight that GoP/FBR Senior Management are fully supportive of the program • Trade bodies are more likely to cooperate with Customs if Customs is proactive
7	It is recommended that Pakistan Customs, at the beginning of the AEO program, enter into	• Concerns/issues are identified at an early stage and can be addressed

	dialogue with other GoP Departments whose work may be impacted by an AEO program.	• Other GoP Departments see the benefits of AEO • Other GoP Departments support the initiative
8	It is recommended that FBR (Pakistan Customs) implement an outreach program which will socialize the benefits of the AEO program through information sheets/brochures and awareness seminars.	• Trade will be fully aware of the benefits • Trade will be supportive of the program • Trade bodies are more likely to cooperate with Customs if Customs is proactive
9	It is recommended that the Pakistan Customs legislation is updated to incorporate the new provisions for AEO.	• Effective legislation to allow implementation of AEO • Robust legislation to allow Customs officers to perform their full range of duties in regard to AEO
10	It is recommended that the AEO implementation team ensure that AEO guidelines are drafted, approved, and implemented.	• Customs staff are fully aware of their roles and responsibilities • Increased knowledge and professionalism from Customs staff
11	It is recommended that the Project Implementation Team initiate early discussions with those GoP Departments impacted by AEO, so that they can review existing legislation and amend, if necessary, to meet the requirements of the AEO program.	• Concerns and issues can be addressed at an early stage • Existing legislation amended in time, so as not to delay the implementation of AEO • Robust legislation to allow staff from other GoP Departments to perform their full range of duties in regard to AEO
12	It is recommended that staff awareness programs are implemented and that those directly involved are given adequate training to develop their core skill set. A minimum period of time in post is also recommended for implementation.	• Customs staff are fully aware of their roles and responsibilities • Increased knowledge and professionalism from Customs staff • Continuity in decision-making with increased time in post

Annex B: Staff Interviewed

Islamabad: The following provided feedback on the status of PCA in Pakistan, PCA staffing resources/training, and trade facilitation.

- Amir Khan Marwat (Director General PCA, Pakistan Customs)
- Asghar Khan (Director PCA, Pakistan Customs)
- Ayesha Niaz (Additional Director, Pakistan Customs)

Karachi: The following provided feedback on trade facilitation, trade facilitation programs (e.g., AEO), trade education/information programs, and relationships between customs/trade/customs agents.

- Mr.Muhammad Yahya (Chief Collector Enforcement (South))
- Mr. Muhammad Saleem (Collector Appraisement (West) / Director Risk Management Unit (RMU))
- Dr. Iftikhar Ahmad (Additional Collector Appraisement (West))
- Dr. Wasif Ali Memon (Collector Exports)
- Mr.Javed Ghani (Director Transit)
- Mr.Wajid Ali (Additional Collector Appraisement East)
- Mr. InamRahmani (Managing Director, Rahmani Traders)
- Mr. Amir Rashid (Deputy Collector Training)
- Dr. Zulfiqar Malik (Director PCA)
- Mr. Nasir Masroor (Chief Collector Enforcement (South))
- Muhammad Idrees (Vice President, Karachi Chamber of Commerce and Industry)
- Durre Shawar (Member/Secretary Women's Chamber, Karachi Chamber of Commerce and Industry)
- Uzma Tahir (Market Researcher, Karachi Chamber of Commerce and Industry)
- Muhammad Ali (Chairman Sales Tax, Karachi Chamber of Commerce and Industry)
- Iftekhar Ahmed (President, Karachi Customs Agents Association)
- Yunus Soomro (Customs Agent, Fine Services Ltd. / Former President Karachi Customs Agents Association)
- Mr. Javaid Mansoor (Executive Secretary, National Trade and Transport Facilitation Committee)
- Mr. M. Azam Khan (Director Technical, Department of Plant Protection)
- Dr. Ehsan-Ul-Haq Khan (Director, Animal Quarantine Department)

Annex C: USAID Customs Modernization Handbook-Authorized Economic Operators Programs

CUSTOMS MODERNIZATION HANDBOOK
AUTHORIZED ECONOMIC OPERATOR PROGRAMS
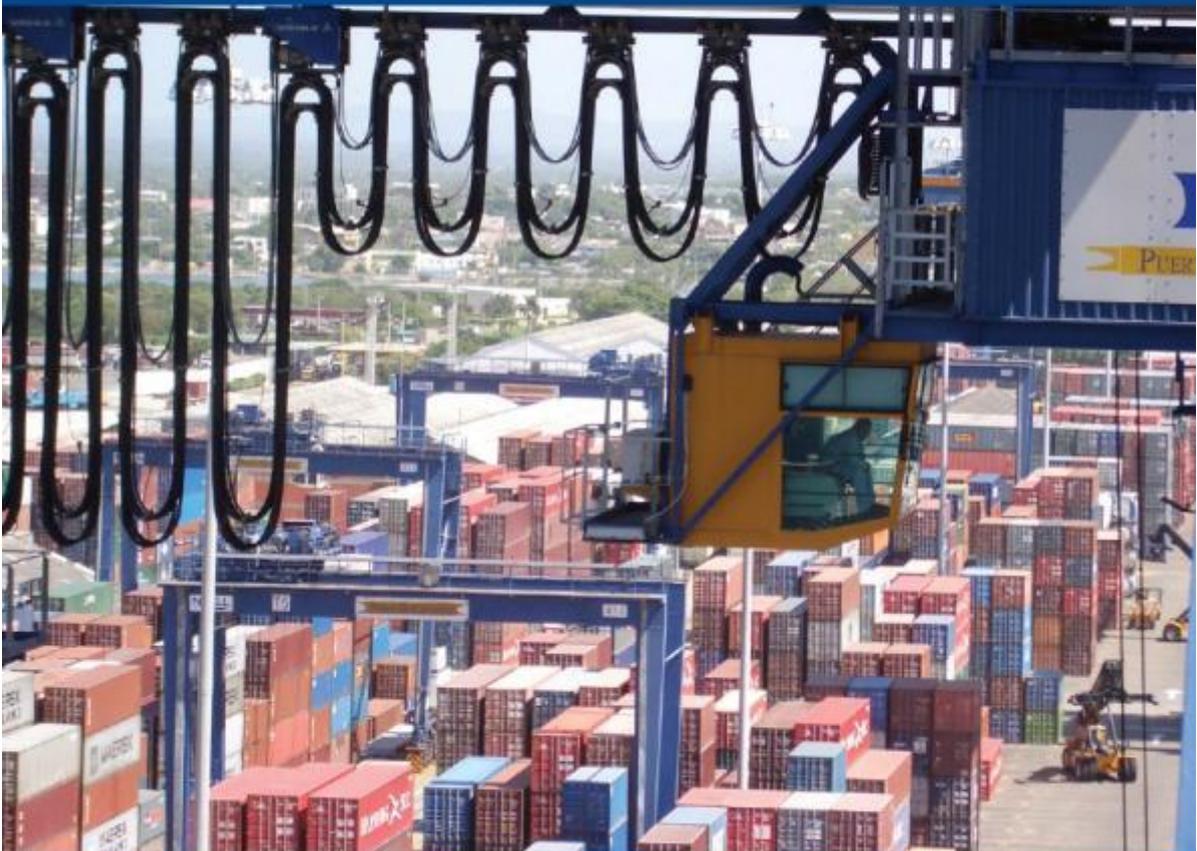
March 2010
This publication was produced by Nathan Associates Inc. for review by the United States Agency for International Development.

CUSTOMS MODERNIZATION HANDBOOK
AUTHORIZED ECONOMIC OPERATOR PROGRAMS

CONTENTS

CONTENTS *(continued)*

EXHIBITS

ACKNOWLEDGMENTS

INTRODUCTION

Customs responsibilities are evolving. In the post-September 11 world, Customs administrations have moved far beyond their original role as governments' primary revenue collectors. Customs administrations are now expected, among other responsibilities, to provide security from the threat of terrorism by securing international supply chains. International agreements and guidance documents on supply chain security, such as the World Customs Organization (WCO) Framework of Standards to Secure and Facilitate Global Trade (SAFE Framework), have established best practice guidelines emphasizing both trade facilitation and supply chain security through Customs-to-Customs and Customs-to-business partnerships. Customs-to-business partnerships can be strengthened through authorized economic operator (AEO) programs, which identify and reward businesses that comply with WCO or equivalent standards for supply chain security. According to the WCO, as of June 2009, 157 member nations had expressed the intention to implement the SAFE Framework. Japan, the European Union, Argentina, China, Brazil, India, Chile, and several other countries have been inspired by the SAFE Framework to develop and implement programs, but many WCO member nations will require guidance and training to implement the framework.

The Authorized Economic Operator Program Handbook is the fourth in a series of customs modernization handbooks commissioned by USAID. This handbook is based on the SAFE Framework and can provide Customs administrations in developing countries with practical, detailed guidance and best practice examples in working collaboratively with the trade community to secure the supply chain while facilitating trade, maintaining or improving controls, and protecting revenue. The handbook does not seek to add to the SAFE Framework concepts but rather to assist Customs administrations in developing countries in planning and implementing national AEO programs. The handbook was developed by the USAID Worldwide Support for Trade Capacity Building (TCBoost) project with significant input from the WCO and the U.S. Customs and Border Protection (CBP). This collaboration is the first of its kind.

The approach of the Authorized Economic Operator Program Handbook is based on effective program management practices and best practices drawn from the experience

of Customs administrations throughout the world. USAID recognizes that management commitment to and employee acceptance of any Customs reform initiative can best be achieved when the Customs administration and its employees participate in the design and implementation of the initiative. USAID also recognizes that Customs managers often prefer to take the lead in developing and implementing new initiatives without relying too heavily on outside technical advisers. This handbook was designed to enable developing-country Customs administrations to follow its guidelines and institute the recommended reform measures with minimal additional technical assistance—although this do-it-yourself approach does not preclude short-term technical assistance. Customs administrations considering an AEO program or in the process of implementing an AEO program may contact USAID and/or CBP's Office of International Affairs to request technical assistance in or training on how to develop and implement such a program.

This handbook begins with a brief history of the development of the SAFE Framework of Standards, particularly as it informs the development of AEO programs, and discusses the principles and preconditions that influence the design and implementation of AEO programs (e.g., import vs. export orientation, Customs-to-business partnerships, integrity issues). Section 2 presents a prototype implementation plan for AEO programs that can be adapted to address local issues and priorities. Section 3 features case studies that detail the experiences of countries that have designed and implemented AEO programs. Finally, the handbook includes a CD that provides reference materials and sample forms and documents from Customs administrations implementing AEO programs throughout the world.

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1. SUPPLY CHAIN SECURITY AND THE SAFE FRAMEWORK

SUPPLY CHAIN SECURITY

In the days after the September 11, 2001, attacks on the United States, nearly all air traffic over the United States was grounded, and land borders and seaports were sealed. The economic impact of these shutdowns resonated within the United States and throughout the world, demonstrating the vulnerability of international supply chains. The United States, Canada, New Zealand, Jordan, Sweden, Netherlands, Australia, and Singapore moved quickly to implement security programs, predecessors of AEO programs.

Given their central role in the movement of goods across international borders, Customs administrations helped develop and implement these security programs, but the responsibility for securing the international supply chain does not rest with Customs alone. No one entity owns or manages the international supply chain; securing the chain requires the participation of manufacturers, importers, exporters, brokers, carriers, consolidators, ports, airports, terminal operators, integrated operators, warehouses, and distributors. Recognizing the need to develop a uniform set of strategies to secure— yet facilitate—the movement of global trade, the WCO began developing Customs Guidelines on Integrated Supply Chain Management (ISCM Guidelines) in 2002. Exhibit 1-1 lists the supply chain nodes where, according to the CBP, manipulation of the supply chain can occur.

SAFE FRAMEWORK OF STANDARDS

The adoption of the ISCM Guidelines in 2004 was followed by the adoption of the SAFE Framework of Standards in 2005. The SAFE Framework is based on two pillars: (1) Customs-to-Customs partnerships and (2) Customs-to-business partnerships. Pillar 1 emphasizes the harmonization of advance electronic cargo information requirements on inbound, outbound, and transit shipments and the use of a consistent risk management approach to address security threats. Pillar 2 encourages the establishment of ways for Customs to identify businesses that consistently demonstrate commitment to compliance with Customs regulations and security procedures as AEOs.

The U.S. Strategy to Enhance International Supply Chain Security (June 2007) identifies 16 supply chain nodes where goods can be manipulated:

1. Origination of cargo (supplier or factory)
2. Origination of packaging
3. Origination of container (if containerized cargo)
4. Mating of cargo and packaging
5. Consolidating of cargo or sealing of container
6. Storage before transport
7. Movement of cargo to port of origin
8. Port of origin (airport, marine terminal or facility, trucking company)
9. International transportation
10. Port of entry (airport, marine terminal or facility, border port of entry).
11. Movement to deconsolidation point
12. Storage before processing
13. Deconsolidation
14. Movement to destination
15. Destination
16. Information flow associated with cargo (end-to-end).

Each node presents an opportunity or requirement for gaining access to the means of transport or cargo.

The SAFE Framework defines an AEO as a party involved in the international movement of goods in whatever function that has been approved by or on behalf of a national Customs administration as complying with WCO or equivalent standards for supply chain security. AEOs include manufacturers, importers, exporters, brokers, carriers, consolidators, intermediaries, ports, airports, terminal operators, integrated operators, warehouses, and distributors. The SAFE Framework establishes the following six standards for AEO programs:

- Standard 1—Partnership. AEOs engage in a self-assessment—measuring their internal policies and procedures against security standards and best practices to ensure that they provide adequate safeguards against the compromise of their shipments and containers until the shipments are released from Customs control at destination.

- Standard 2—Security. AEOs incorporate program-defined best practices fot security into their business practices.

- Standard 3—Authorization. The Customs administration, together with representatives of the trade community, design validation processes or quality accreditation procedures that offer incentives to businesses because of their status as AEOs.

- Standard 4—Technology. All parties maintain cargo and container integrity by using modern technology.

- Standard 5—Communication. The Customs administration regularly updates the security standards and supply chain security best practices defined in the AEO program.

- Standard 6—Facilitation. The Customs administration works cooperatively with AEOs to maximize security and facilitation of the international trade supply chain originating in or moving through its Customs territory.

AEO PROGRAM DESIGN PRINCIPLES

In the design and implementation of an AEO program, certain principles must be followed and certain conditions must be met. These include compliance with international standards and being guided by best practices developed by international organizations and other Customs administrations, the prioritization of either imports or exports, the state of Customs-to-business partnerships in the country, and the level of integrity displayed by the Customs administration.

GET SUPPORT FROM HIGHEST LEVELS OF THE CUSTOMS ADMINISTRATION

A successful AEO program requires the firm commitment of the Customs administration's director general or chief executive. The chief executive must sponsor and advocate for the program from its inception. The chief executive's direct involvement in the program provides tangible support to the team developing the program, ensures that Customs officers understand the program's importance, and gives the program credibility before the trade and transport community. The chief executive must be personally involved in introducing the AEO concept to the executive branch, to the legislature, and to other government ministries and agencies to obtain the necessary governmental support and funding for the program. This handbook proceeds under the assumption that the chief executive has obtained governmental consent or approval, been assured of funding, and has reached out to other ministries and agencies involved in trade and border issues.

COMMIT TO MEETING INTERNATIONAL STANDARDS

The SAFE Framework standards for AEO programs reinforce international standards for Customs administrations (e.g., Revised Kyoto Convention). Customs administrations ready to design and implement AEO programs understand the importance of balancing international trade and security and are ready to play their role in facilitating legitimate international trade and investment. They also understand the vulnerability of the international supply chain and their increasingly important role in securing goods and conveyances moving across borders. They measure their success by documenting that new procedures and working relationships have increased the degree of compliance with Customs and related requirements. They simplify procedures to reduce delays and uncertainty. They establish achievable goals to improve compliance and measure their success in achieving them. They tailor controls to risks. They communicate more openly and effectively. They implement transparent, performance-based human resource management practices, provide adequate compensation, and reduce opportunities for corruption.

COMMIT TO PROFESSIONALISM AND INTEGRITY

No matter how well designed, a program will fail if Customs managers, importers, and exporters cannot rely on their officers and employees to perform their duties in an ethical manner. If customary practices include the exchange of tips, gratuities, favors, or bribes, both Customs and the trading community must be willing to make a change. In the Customs administration, success begins with senior managers' firm personal commitment to provide leadership and to insist on improved policies, practices, and procedures, even

when traditional methods of doing business are deeply ingrained. The success of an AEO program also depends on professionalism and integrity in the trading community, especially importers, exporters, and brokers. The WCO has published excellent integrity assessment tools, and USAID has published the handbook Establishing and Implementing a Customs Integrity Program dealing specifically with this issue. Both are on the CD included with this handbook.

DETERMINE IMPORT OR EXPORT ORIENTATION

Some AEO programs focus on imports, others on exports, depending on national priorities. Governments must not only guard against terrorist attacks on their own soil through the import supply chain, but they must also safeguard their competitiveness in the international market by protecting export markets and brand names. Ideally, an AEO program covers both imports and exports, but Customs administrations should not try to do too much too soon. If a country considers its primary threat an attack on its homeland, it will probably address imports first. But if the primary threat is to export markets, the country might prefer to focus first on export security. Either decision does not preclude a program covering both imports and exports later. The key issue is where to start.

STRENGTHEN CUSTOMS-TO-BUSINESS PARTNERSHIP

In modern Customs administrations, traditional control systems have given way to risk-based selectivity systems. These systems have made complying with Customs requirements easier. They punish those who do not comply and reward those who do. In developing an AEO program, a Customs administration must get to know its trading community and understand its business practices and concerns. Adversarial relationships are replaced with mutual respect and partnership. By adopting a less adversarial philosophy, Customs administrations can both secure the international supply chain and facilitate the movement of legitimate international shipments. Section 2, Step 4 of this handbook provides additional information on strengthening or enhancing the relationship between Customs and the trade community.

2. STEPS IN AEO PROGRAM DESIGN AND IMPLEMENTATION

Every Customs administration incorporates its own experience and approach into AEO program design and implementation. Some Customs administrations have project management or modernization and reform departments, but others may not have the resources or training to apply project management techniques. This guide to AEO program implementation

- Suggests a course of action incorporating project management techniques for Customs administrations that do not have in-house project management expertise;
- Outlines a strategy that will enable Customs administrations and business clients to work in partnership on incorporating the SAFE Framework into a national AEO program; and
- Describes best practices and the approaches taken by Customs administrations that have already implemented AEO programs.

The design and implementation of an AEO program are complex and time-consuming processes. The best way to prime an AEO program for success is for the partners in the public and private sectors to collaborate in designing the program. This collaboration entails the formation of two groups:

- A project implementation team made up of Customs officers
- A working group of representatives of the trade (importers, exporters, carriers, brokers, warehouse operators, manufacturers) and other government agencies with responsibilities relating to imports and exports.

The formation of these two groups is addressed in Steps 1 and 2.

STEP 1: ASSEMBLE PROJECT IMPLEMENTATION TEAM

The first step in developing an AEO program is assembling a project implementation team. The project implementation team is made up of Customs managers and officers responsible for working with the private sector to design the AEO program and for managing project implementation.

Although the Customs chief executive serves as the project sponsor, few managers in such a high position can devote the time and attention necessary to manage the design and implementation process. The chief executive therefore should appoint a trusted subordinate as the full-time project manager.

The project manager should have strong motivation and excellent project management skills and the demonstrated ability to bring together people with diverse points of view in a productive manner. The project manager leads the project implementation team and works closely with the AEO working group (see Step 2). He or she will have to have the authority to speak for the chief executive and to make decisions and commitments (within defined parameters) for the project. The project manager keeps the chief executive informed of progress and any obstacle encountered in the design and implementation process. Although the chief executive may have delegated significant authority to the project manager, the chief executive must remain visible and accessible.

The project manager nominates the rest of the project implementation team, including specialists in risk management, human resource management, policy and procedure development, postclearance audit–based controls, information technology, legal and policy advice, and public information. Field officers should also participate. Having local champions who are well informed about the program will help later. Nominees should demonstrate motivation to pursue progressive Customs modernization and be able to work well with others. It is recommended that the project manager and implementation team members have a good command of English, one of the WCO's primary languages. The ability to research WCO references and other best practices without having to call on a translator will be valuable.

The project implementation team can have both full-time and part-time members. In either case, team members must be free to contribute meaningfully to the project. Supervisors of team members must recognize that the AEO project is a high priority, understand that they are expected to support it, and ensure that their subordinates have sufficient time to fulfill their project implementation roles and responsibilities. The chief executive facilitates this by ensuring that supervisors are made aware of the importance of the AEO program through correspondence and staff meetings and by conveying the expectation that the design and implementation process be fully supported.

When a project implementation team is formed, the team members' ability to remain on the team long term should be taken into consideration. Customs officers who participate in this process will learn how businesses operate and will see firsthand the successes and challenges that play out during the design and implementation of the program. To lose this experience as the program progresses would be very detrimental to the program. These knowledgeable officers should be kept on to lead the AEO program.

STEP 2: ESTABLISH AEO WORKING GROUP

The second step in developing an AEO program is to bring the private sector and other government agencies into its planning and implementation by creating an AEO working group. The Customs chief executive should take the lead in identifying and inviting representatives from the private sector and other government agencies to work

with the project implementation team. The project implementation team, private sector counterparts, and representatives from other relevant government agencies form the AEO working group.

The working group will lay the foundation for the AEO program and ensure that the private sector and other government agencies are represented. In some countries, a Customs consultative committee made up of representatives of border agencies and segments of the private sector—such as importer and exporter associations, Customs broker and agent associations, freight forwarder associations, transport company associations, and airport and seaport management companies—already exist. If such a committee exists, the Customs administration should use it to develop a partnership-friendly environment for the AEO program by inviting the consultative committee to designate representatives to participate in the AEO working group.

Because other government agencies exert additional controls over imports and exports, an AEO program cannot succeed without their input and cooperation, especially in simplifying and harmonizing procedures. Involving other agencies in AEO program design and implementation helps avoid unproductive and embarrassing interagency arguments in the presence of the trade community. If Customs wants to develop a good relationship with the trade community, it has to ensure that other trade-related government entities share that motivation.

When the working group is established, an introductory meeting should be held. Although the quality and success of the AEO program depend on the participation of the private sector, the program is essentially a Customs program, and the Customs project manager should serve as chairperson and an industry counterpart should serve as deputy. The chief executive and project manager provide a detailed briefing on the AEO concept. The working group selects the deputy chair and officers for the group.

STEP 3: DEFINE THE PROJECT

The first steps for the AEO working group are to draft a charter and a scope of work for the project.

PROJECT CHARTER

The project charter

- Defines the project and provides broad direction,
- Explains the importance of the project to the Customs administration and its stakeholders,
- Names the project manager and establishes his or her decision-making authority,
- Names the project implementation team members and establishes their roles,
- Emphasizes senior management's support for the project and the project manager,
- Emphasizes the importance of the private sector in the design of the AEO program,

- Spells out the working group's role as the primary communication conduit between Customs and private industry partners, and the rules by which the working group operates,
- Specifies that the AEO working group is a permanent part of the AEO program, and
- Is made available to everyone associated with the project.

The project manager submits the draft charter to the chief executive and incorporates the chief executive's modifications into the final charter. The issuance of a project charter signed by the Customs chief executive serves as official notification of the initiative and of the expectation that they fully support the concept and those charged with implementing it.

SCOPE OF WORK

When the Customs chief executive has approved and disseminated the charter throughout the Customs administration, the project implementation team develops a preliminary scope of work for the project implementation team. The scope of work includes project objectives and rationale; project sponsor and major stakeholders; the project scope or boundaries (i.e., the work that will and will not be performed); expected dates and duration of implementation; assumptions, constraints and risks; initial project organization; initial work breakdown structure; project deliverables, timelines, and milestones; and cost estimates and resource requirements. The scope of work builds on the project charter by laying out the broad parameters of the project; the AEO working group will develop a project implementation plan, more detailed than the scope of work, in step 4. In drafting the scope of work, the project implementation team must consider organizational and resource issues such as

- What department assumes management responsibility of the AEO program after the project implementation team completes its work? Is there a department suited for and capable of taking on this responsibility or must a new department be created? Will the organizational structure have to be revised?
- Does Customs have the resources necessary to support an AEO program? How many personnel will be required to manage the program? Where will they come from?
- Will new office space be required? What computers, vehicles, and other equipment will be needed?
- If Customs does not have the resources needed, where does it turn to request them?

A key variable for determining resource needs is the number of AEOs the program can reasonably expect to support. This handbook recommends that a new AEO program start with importers and exporters because they select the other links in the supply chain. After the first participants gain experience and confidence, the program can be expanded to include brokers, transporters, and ports.

The chief executive publishes the scope of work. The charter is made available to all Customs managers, ideally on the Customs intranet and website. The Customs chief executive also approves organizational and resource recommendations so that Customs can begin to implement the decisions made.

The U.S. Department of Agriculture *Project Management Handbook*, found on the CD accompanying this handbook, provides detailed instructions on drafting project charters and preliminary scopes of work.

STEP 4: DRAFT PROJECT IMPLEMENTATION PLAN

Next, the AEO working group drafts a project implementation plan. The working group must work as a team, considering each other's point of view and being willing to compromise. The project implementation plan should include each task to be completed, the person or persons responsible for each task, and the date each task is expected to be completed. Steps 5–11 specify these tasks.

When the AEO working group has produced a first draft of the project implementation plan, they present it to the Customs chief executive for review. The chief executive should circulate the draft within Customs and solicit comments. The working group reviews the comments and adjusts the draft as appropriate. The working group can expect to revise and resubmit the plan several times to the chief executive and other senior managers before receiving approval to proceed. After the final draft of the project implementation plan is approved, the project implementation team publishes the plan, making it a public document. As with the project charter, the approved project implementation plan should be made available to all Customs managers and be posted on the Customs intranet and website.

The AEO working group can then begin implementing the project implementation plan:

- Define AEO requirements (Step 5)
- Define AEO benefits (Step 6)
- Develop the application process (Step 7)
- Recruit supply chain security specialists (Step 8)
- Announce and promote the AEO concept (Step 9)
- Pilot the AEO concept (Step 10)
- Consider mutual recognition (Step 11)

The AEO working group should begin reporting to the chief executive on its progress in implementing the plan. Reports are made in writing, usually monthly, detailing the work accomplished, tasks completed, unexpected obstacles or delays encountered, adjustments made to the plan, and other relevant information. The Customs chief executive should meet with the working group at least once in each reporting period to discuss progress.

STEP 5: DEFINE AEO REQUIREMENTS

The first major task in developing a national AEO program is to define the requirements to become an AEO. These requirements may be written in draft regulations (or sublegislation) but are more practical when published in a less-formal format that allows modification on the authority of the Customs chief executive (acting on recommendation from the working group) rather than requiring legislative amendments. Because participation in AEO programs is voluntary, this informal approach is usually sufficient. The AEO working group should draft national requirements in compliance with the guiding standards established by Chapter 5 of the SAFE Framework, with respect to regulatory compliance, business record management, financial viability, security, crisis management, communications, and training. Each of these guiding standards is briefly discussed below.

REGULATORY COMPLIANCE

To participate in an AEO program, a potential industry partner must demonstrate a record of compliance over a certain period of time. A critical and often difficult question the AEO working group must consider is whether Customs has sufficient, reliable data to determine past compliance levels.

The project implementation team works with the Customs risk management department to analyze declarations from the preceding 12 months and identifies the importers, exporters, transporters, and brokers with the most declarations, the highest Customs value, and greatest revenue contribution. Because this information is confidential, participation in this review has to be limited to Customs officers who are constrained from revealing this information to others. The team also reviews declaration amendments and penalty cases to determine whether a past level of compliance can be reliably determined for those companies.

The team reviews declaration processing at clearance centers and all penalty cases issued for undervaluation during the preceding 12 months to determine if procedures have inadvertently created a lack of documented amendments, inappropriately identified legitimate Customs valuation disagreements as violations, or encouraged undervaluation as a negotiating ploy.

Accurately gauging past compliance may not be possible, however, because of a lack of reliable data. Even if Customs cannot accurately ascertain past compliance, an appropriate record of compliance must be defined. The AEO working group may choose to define this record differently for past and future compliance. This recognizes that Customs compliance tracking measures may not have been adequate before the implementation of the AEO program and does not unfairly penalize traders for this inadequacy. Exhibit 2-1 describes a scenario in which the issue of traders' compliance is clouded by local valuation practices.

If past or current Customs practices have contributed to less-than-satisfactory compliance, setting the initial compliance standard will be challenging. Setting it too high may be counterproductive. If Customs cannot accurately analyze compliance levels

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EXHIBIT 2-1
Complications Arising from Informal Amendment Practices

When Customs officers do not register (officially accept) a declaration until the importer or broker has agreed to change the declared value, the increase in declared value is not recorded because the declaration is not changed after it was registered. By dealing with valuation disputes informally when a declaration is presented, Customs may unintentionally create an atmosphere of negotiation, encouraging importers to undervalue their declarations and to see their original valuation as an opening bid, knowing that they will not be penalized for undervaluation and hoping that the final value will be lower than if they had declared the true transaction value at the outset.

Furthermore, increasing the originally declared Customs value at the time the declaration is presented but before it is officially accepted does not necessarily mean that the importer or broker committed an offense, filed a false document, or attempted to defraud the government. Transaction value is problematic. The price that different importers pay suppliers for the same or similar goods varies according to many factors. Customs officers generally do not have adequate information at the time the declaration is presented to correctly dispute the declared transaction value and assess an alternative value.

on the basis of its records, what can it do? Absent a reliably documented pattern of an AEO applicant's willful misconduct, Customs must rely on the applicant's willingness and ability to conform to AEO requirements in the future.

In any case, Customs must correct any procedure that contributes to a lack of compliance and begin documenting and tracking amendments to declarations accurately, if it is not already doing so. Customs must record all violations (of whatever type), as well as positive and negative examination findings, in a manner that is accurately attributable to the company involved. Customs, if it has not already done so, also must pursue refinements in postclearance audit, risk management programs, IT solutions, and integrity programs.

If Customs has not yet started promoting voluntary compliance and measuring compliance, an AEO program offers an ideal opportunity to begin establishing compliance measurements and implementing more transparent procedures—for example, requiring brokers and importers to register electronic declarations when they file rather than allowing a Customs officer to register the declaration after haggling over valuation. If a declaration is revised to reflect a higher Customs value, the revision must be recorded through a formal amendment process to create the record necessary to measure a company's compliance.

This will probably require an organizational change of philosophy about how to gain compliance—from negative reinforcement (penalties and seizures) to positive reinforcement. This sort of culture change is not easy. The AEO working group will have to use proven change management techniques to promote the voluntary compliance approach and gain the acceptance of all stakeholders, Customs officers in the field included. The difficulty of making this change should not be underestimated. Many will resist it and be skeptical of the new approach.

BUSINESS RECORDS MANAGEMENT

National legislation usually defines recordkeeping requirements, including which documents must be retained and for how long. Redefining national standards or establishing new national standards for an AEO program is usually not necessary. Generally speaking, an AEO should be able to demonstrate that it understands the legal requirements for recordkeeping, including the nature of the records to be maintained and the length of time that records must be kept and that it has

- Procedures to explain the recordkeeping requirements to employees preparing, maintaining, and producing the records;
- Security measures to protect records from loss or unauthorized access;
- Procedures to prepare and maintain required records and to produce the records for Customs, including documents relating to imports and exports, powers of attorney, and licenses;
- Assigned responsibility for recordkeeping compliance and maintaining familiarity with Customs recordkeeping requirements; and
- Procedures to notify Customs of variances from or violations of the recordkeeping requirements as well as procedures to take corrective action when notified by Customs of violations or problems involving recordkeeping (U.S. Customs Service 1998).

The U.S. Customs and Border Protection compliance bulletin, What Every Member of the Trade Community Should Know About Records and Recordkeeping Requirements and Section 1.2.3.3 (Internal Control System) of the European Union's Authorised Economic Operator Guide, found on the CD accompanying this handbook, demonstrate records control best practices.

The AEO applicant is responsible for demonstrating that it has a recordkeeping system that satisfies the standards established by the AEO working group. The applicant meets this burden of proof by documenting its records management system in its AEO application. This, of course, is subject to Customs validation.

FINANCIAL VIABILITY

The SAFE Framework requires that an AEO's financial standing be sufficient to fulfill its commitments with due regard to the characteristics of its business activity. In other words, small family businesses with one or two employees should not be held to the same financial viability standards as a large company with a high volume of Customs transactions. Flexibility and common sense should be used in determining the sufficiency of the applicant's financial standing. Customs probably has a documented working relationship with an AEO applicant that will demonstrate the applicant's financial responsibility with respect to Customs obligations. The applicant's history of maintaining bank guarantees or other financial securities required by Customs and its ability to obtain the bank guarantee required by the AEO program can further demonstrate financial viability.

Customs and the applicant establish to Customs' satisfaction that the applicant meets reasonable financial viability standards agreed to by the AEO working group. Customs reviews the applicant's past performance in meeting its financial obligations, and the applicant certifies in the application process that it meets any additional financial solvency or related standard.

SECURITY

Sections 5.2.G through 5.2.K of the SAFE Framework require that AEOs incorporate predetermined security best practices into their business practices. The AEO working group establishes national security standards based on the SAFE Framework and establishes the format by which AEO applicants demonstrate that they meet these standards. Working group members must understand that the SAFE Framework standards were written with flexibility in mind. Rather than specifying the type of fencing, number of cameras, means of securing buildings, and the like, the SAFE Framework uses terminology such as "reasonable precautions," "as necessary," "if necessary," "adequate lighting," and "appropriate barriers."

The goal of the security standards is the implementation of meaningful Customs-specific security enhancement protocols. In this context "meaningful" calls for an approach that takes into consideration that what is reasonable for one company may not be reasonable for another. AEOs that have large facilities or a large fleet of vehicles and a correspondingly large number of personnel require more substantial security systems than AEOs that have only one office and a handful of employees. A Customs administration implementing an AEO program must take this into account as it reviews applications and security profiles. The test is whether the security measures in place are reasonable for the size and activities of the company and accomplish the goals of the standard.

The Trading Partner Security Standard (5.2.K) is crucial to the supply chain security concept and calls for AEOs to contractually require their business partners to implement

security practices. The ultimate goal of the SAFE Framework is to secure the entire supply chain, not just portions of it. Thus, for an export manufacturer to be designated an AEO, the manufacturer is expected to ensure that its business partners also meet the appropriate security standards. Such partners include land transportation companies contracted to move the manufacturer's export product to the place of export, the clearing agent who prepares the export declaration, the air or sea transport company, and other service providers. Standard 5.2.K requires that the AEO, when entering into negotiated contractual arrangements with a trading partner

- Encourage, if necessary, the other contracting party to assess and enhance its supply chain security;

- Include such language in those contractual arrangements, to the extent practical for its business model;

- Retain documentation to demonstrate its efforts to ensure that its trading partners meet these requirements;

- Make this information available to Customs upon request; and

- Review relevant commercial information about the other contracting party before entering into contractual relations.

CRISIS MANAGEMENT AND INCIDENT RECOVERY

To minimize the impact of a disaster or terrorist incident, Section 5.2.L of the SAFE Framework requires that the AEO and Customs develop and coordinate contingency plans for emergency security situations and for disaster or terrorist incident recovery. These plans must strike a balance between security and trade facilitation.

Although the United States, Mexico, Canada, and other countries have developed contingency plans, this aspect of the AEO security standards is still in development and need not be incorporated into the AEO program until the WCO develops guidelines.

COMMUNICATIONS AND TRAINING

Sections 5.2.D and 5.2.E of the SAFE Framework establish requirements for Customs and AEOs with respect to cooperation, communication, and training on matters of mutual interest. The formation and maintenance of an AEO working group satisfies the requirements that Customs consult regularly with all parties involved in the international supply chain at the national and local levels and that AEOs—through an industry association—openly and consistently exchange information with Customs.

The requirement that Customs and AEOs clearly identify and make readily accessible points of contact is routinely met during the application process described in Step 8.

These standards require that Customs and AEOs establish procedures and mechanisms to identify and report incidents, suspected Customs offenses, suspicious or unaccounted-for cargo, and any other risk associated with the movement of goods in the international supply chain. The standards call for Customs to designate contacts (names and phone numbers) in Customs for reporting purposes, to make AEOs aware of reporting procedures, and to give AEOs a way to provide feedback. Similarly, they require AEOs to

notify Customs of any unusual or suspicious cargo documentation or other abnormality and to notify Customs and other relevant authorities in a timely fashion when employees discover illegal, suspicious, or unaccounted-for cargo. These requirements can be met by the AEO working group's collaborating on a Customs directive outlining reporting requirements, procedures, and means.

The standards also address training for Customs and AEO personnel on security policies and the responses required in case of security lapses.

Customs training responsibilities include

- Training its own security personnel;
- Assisting AEOs in developing guidelines, security standards, best practices, training, and authorization schemes and materials calculated to raise security awareness and to assist in minimizing security risks; and
- Providing AEOs with educational materials and expert guidance, familiarizing them with Customs practices, and providing training on maintaining cargo integrity.

An AEO's training responsibilities include

- Working with Customs to educate the AEO's personnel and trading partners on the risks associated with the movement of goods in the international trade supply chain;
- Training its employees to recognize potential internal threats to security and preventing unauthorized access to secure premises, goods, vehicles, automated systems, seals, and records;
- Familiarizing Customs with relevant internal information and security systems and processes, and assisting Customs in training on search methods for AEO premises, conveyances, and business operations;
- Making employees aware of the procedures for reporting suspicious incidents; and
- Keeping adequate records of educational methods, guidance provided, and training.

The AEO working group enlists the assistance of the Customs risk management department and training department in developing training materials. When the standards and forms are drafted, the AEO working group presents them to the Customs chief executive for review and approval.

When the Customs chief executive approves the standards and forms, the AEO working group formats the AEO application form and company profile template and prepares instructions for filling out the forms.

STEP 6: DEFINE AEO BENEFITS

Because AEO programs are voluntary and participation has financial costs for participants, to encourage participation and offset costs, Customs administrations must offer measurable and tangible benefits to AEOs, deciding on what the benefits will be in cooperation with the trade community. Potential AEOs must understand how participation will benefit them in terms of simplified processes and in making them more attractive business partners when the security of the global supply chain is increasingly

important. If the benefits do not outweigh the costs, or if potential participants have become cynical about the prospects for improvement, the chance of success will suffer. Expected benefits include inventory cost reduction; reduction of cost to move goods in transit; reduced losses due to lost, pilfered, or damaged merchandise; lower rejection rates at the port of destination; and lower staffing costs.

Section 5.3 of the SAFE Framework lists the four groups of benefits that AEO programs can provide to AEOs. These are shown in Exhibit 2-2.

The AEO working group should review, research, and discuss the list of potential benefits and agree on those it considers relevant and practical in the national environment. It should also determine whether those benefits are permissible under existing legislation or whether legislative changes are required. The working group should also determine if the benefits, small and large, can be feasibly delivered. It is important not to overpromise.

EXHIBIT 2-2
Benefits that May Be Offered to AEOs for Participation in AEO Program

Measures to expedite cargo release, reduce transit time, and lower storage costs

- A reduced data set for cargo release
- Expedited processing and release of shipments
- Fewer cargo security inspections
- When examination is required, use of nonintrusive inspection techniques first
- Reduction of certain fees or charges
- Keeping Customs offices open around the clock when a need for such coverage has been identified

Access to information of value to AEOs

- Names and contact information for other AEOs, with the consent of those participants
- List of countries adopting the SAFE Framework

- List of recognized security standards and best practices

Special measures during periods of trade disruption or elevated threat level

- Priority processing during periods of elevated threat conditions
- Priority processing after an incident requiring the closing and reopening of ports and/or borders
- Priority in exporting to affected countries after an incident

First consideration for participation in any new cargo processing program

- Account-based processing rather than transaction-by-transaction clearance of accounts
- Simplified postentry or postclearance programs

Seminars, points of contact, and newsletters are small benefits that can be added to larger benefits. Some potential benefits, such as dedicated traffic lanes, will depend on funding and infrastructure.

After the AEO working group has drafted the list of specific benefits to be incorporated into the AEO program, the Customs legal department determines if the proposed benefits are permissible according to the national Customs code. If any proposed benefit does not comply with legislation, the legal department explains, in writing, why those benefits cannot be provided under current legislation. The Customs chief executive must then determine, after hearing from the AEO working group and the legal department, the extent to which Customs should pursue new legislative authority and task the legal department with drafting the appropriate and necessary changes.

Best-practice examples from different Customs administrations are provided on the CD accompanying this handbook.

The AEO working group finalizes the list of benefits. The Customs chief executive and/or the legal department pursues expedited enactment of any legislative change required, and the AEO working group drafts implementing instructions for each approved benefit.

STEP 7: DESIGN THE APPLICATION PROCESS

Applicants have to complete an application and security profile to join the AEO program. Now is time for the AEO working group to design the application process, laying out standard, transparent procedures for the review and approval of the application. Before the working group designs the review and approval process, it must first design detailed instructions on completing the application and security profile, a memorandum of understanding template for the AEO applicant and Customs; and perhaps an AEO certificate. Then the working group can begin drafting standard operating procedures for reviewing, verifying, and approving applications. The group must also draft procedures for removing or suspending an AEO from the program, and procedures for a rejected applicant to appeal its denial of AEO status. The process should also allow for internal checks and controls. Section 5.5 of the SAFE Framework provides an application process outline.

The following describes a typical application process.

APPLICATION

The applicant completes an application for the AEO program, including a questionnaire and security profile, which an officer of the company signs. By completing the questionnaire and security profile, the applicant

- Demonstrates that it uses standard accounting practices, prepares sound financial statements, and maintains a complete record of contracts, purchase orders, shipping documents, import duties, and taxes paid;

- Demonstrates that it has an internal control system that creates an audit trail from accounting records and payments to Customs entry records and provides full documentation to ensure that accurate values are reported to Customs;

- Demonstrates that it meets specific security and procedural requirements published by Customs;

- Agrees to allow Customs officers to review all company documents related to imports, exports, and other Customs activity and to periodically inspect company premises on request;

- Demonstrates a record of a high level of compliance with Customs requirements and agrees to maintain a supportive attitude and cooperate with Customs to ensure that the company's procedures and practices result in a high level of compliance;

- Commits to continue meeting all program requirements, acknowledging that failure to do so may result in suspension or removal from the program; and

- Agrees to provide annual notification to Customs confirming the name, title, e-mail address, and postal address of the company contact for the AEO program and asserting that the company continues to meet the requirements of the AEO program.

APPLICATION REVIEW

Customs reviews the application to determine the applicant's readiness to assume the required responsibilities. Customs considers

- The company's history of trade compliance, including compliance measurement data, previous penalty or other enforcement action, and the company's standing with tax and other government agencies;

- Information about the company's risk exposure, such as

  – Volume of import/export activity;
  – Imports from suspect manufacturers or suppliers;
  – Imports from countries known as transshipment points;
  – Large volumes of imports under special duty provisions or trade programs; and
  – Large volumes of imports under complex tariff classifications; and
  – Verification of security measures.

APPLICATION REVIEW MEETING

After the application has been reviewed, an application review meeting is held. The Customs review team leader

- Provides the applicant with written notification of the application review meeting at least 10 days before the start of the meeting and includes a request for supporting documentation or material, if needed;

- Contacts the applicant's primary point of contact to answer preliminary questions and explains the application review meeting process; and

- Makes opening comments about the AEO program and welcomes the applicant's interest in the program.

The company

- Provides an overview of corporate structure and lines of authority and describes its import/export and other relevant departments and the extent to which the staff members are trained, the company's relationship with brokers, and how it ensures the flow of Customs-related information and communication within the company;

- Gives a tour of its facility so the review team can observe controls and procedures in action; and

- Gives the review team a private room where members can meet.

The review team

- Discusses the information presented by the company, meets with the company representatives, and raises questions about the company's application.

- Reviews the company's internal control processes and procedures, selecting three or four declaration numbers and asking the company to demonstrate and explain the documentation for the entire declaration process for those declarations.

- Documents its findings and gives them to the applicant. If the team finds significant weaknesses, it recommends an action plan to address the weaknesses and specifies a deadline by which the company must complete the plan.

APPLICATION APPROVAL OR DENIAL

To ensure that the AEO program is managed in a fair and impartial manner, the approval authority is separate from the review process. The officers who perform the review make their recommendations in writing to a chief executive or senior manager in Customs who has approval authority.

When Customs determines that the applicant has met the requirements for acceptance into the AEO program, Customs signs the partnership agreement memorandum of understanding and advises the applicant that its application has been approved.

If the applicant does not meet the value or volume requirements for participation or has committed a serious infringement or repeated infringements of Customs rules, the application is denied.

If Customs determines that an application should not be approved, it issues a notice specifying the reasons for denial and advising the applicant of its right to file a written appeal. If deficiencies cited as the reason for denial are corrected by the deadline (which the AEO working group sets), the applicant may request in writing the reinstatement of the application.

The approval of an application can be annulled if the application was approved on the basis of incorrect or incomplete information, and the applicant knew or should reasonably have known that the information was incorrect or incomplete, and the favorable decision would not have been taken on the basis of correct or complete information. The company's point of contact for the AEO program is notified of the annulment of the authorization, and the annulment takes effect immediately on the date the decision to annul was made.

The AEO application process will vary from country to country; the AEO working group should adjust the process described here to ensure that the process meets local objectives.

STEP 8: RECRUIT SUPPLY CHAIN SECURITY SPECIALISTS

AEO programs are based on risk management principles promoted by the WCO and practices used by Customs administrations throughout the world; therefore, the logical entity to assume responsibility for the management of an AEO program is the risk management department of the Customs administration. This department, normally responsible for employing analytical skills to identify and target high-risk shipments, must expand its focus and use its skills to identify low-risk, compliant companies qualifying for simplified and expedited procedures.

The risk management department must develop its own expertise in supply chain security. As Customs officers review AEO program applications and validate security profiles—visiting facilities, meeting with company managers, and reviewing security processes and controls—they gain familiarity with business practices. Although Customs administrations often already establish and enforce basic physical security standards for bonded warehouses, free trade zones, duty-free shops, and bonded carriers, few have had the need or opportunity to acquire the expertise in business operating procedures,

internal controls, employee security, and information security that implementing an AEO program will require.

To meet the challenges of managing an AEO program, a Customs administration may have to increase staffing or redeploy existing staffing to create a new group of supply chain specialists. Supply chain specialists develop focused expertise in and knowledge about the international supply chain and the means of securing it. Ideally, supply chain specialists have university degrees and two or more years of experience in Customs-related activities. They may have backgrounds in enforcement, trade matters, transportation, or trade logistics, and they should have organizational, computer, interpersonal, and verbal and written communication skills as well as the ability to perform detailed work. Training or practical experience in commonly applied security principles, concepts, and methodologies is especially welcome, as are language skills, because supply chain security specialists review correspondence, purchase orders, and other documents that may be in a foreign language. The experience and knowledge that project implementation team members gain in AEO program design and implementation are invaluable to the ongoing management of the program, and the Customs administration should take care to retain these officers so that the institutional memory of the program is not lost.

EXHIBIT 2-3
Typical Supply Chain Specialist Duties

In the United States, the CBP's AEO program is called the Customs-Trade Partnership Against Terrorism (C-TPAT). A new kind of specialist—the supply chain security specialist—is critical to implementing the program. The specialist physically inspects and validates member companies' domestic operations and foreign business partners. In 2007, C-TPAT security specialists validated 3,011 supply chains, visiting manufacturing and logistics facilities in 79 countries. (CBP 2008a).

Supply chain specialists perform the following duties:

- Serve as subject matter experts on the WCO Safe Framework of Standards, the Revised Kyoto Convention, the International Ship and Port Facility Security Code, and international standardization related to security of the supply chain (ISO/PAS 28000 and related)
- Provide guidance to prospective AEOs on how to prepare a security profile and complete their application
- Vet applications and security profiles for content and completeness
- Preliminarily rate each application (compliant/ satisfactory, partially compliant/more information needed, unsatisfactory)
- Request further information to resolve deficiencies and answer questions about application and profile information
- Lead or participate in application review meetings and validation visits to applicants' premises to meet with the

company's officers and inspect facilities and procedures to verify that the information in the application and profile is accurate and that the described procedures and safeguards are in place
- Resolve deficiencies observed during the application review meetings, including meeting with rejected applicants to provide guidance on how these can be corrected
- Document findings and provide a written recommendation of approval or disapproval to the deciding authority and drafting the correspondence to the applicant
- Serve as the principal adviser and primary Customs point of contact to assigned AEOs for security issues and as the primary liaison for promptly resolving non-security-related issues
- Maintain accurate files of actions taken with respect to applications and participants so that an audit trail is maintained
- Prepare assessment reports, giving special attention to identifying unusual trends that could become security problems
- Recommend the appropriate response to incidents of noncompliance by AEO partners, including working with the AEO partner to identify ineffective procedures or internal controls and providing recommendations for improvement
- Serve as a trainer and public speaker to Customs and private sector partners on supply chain security issues

The human resources department of the Customs administration should establish a supply chain security specialist position, prepare descriptions of duties and qualifications, and recruit in accordance with local practices. Each Customs administration has its own formats and systems for documenting the duties of specialized positions. Exhibit 2-3 lists the functions a supply chain security specialist typically performs. The training and employee development department of the Customs administration should ensure that training for the new specialists is organized promptly.

The size of the implementing country, the number of Customs offices, and the geographical distribution of AEOs should be taken into consideration in determining whether all supply chain security specialists should be based in headquarters or posted to regional offices. If the decision is made to disperse some supply chain security specialist to certain regions, the specialists should still come under the functional supervision of the department designated to manage the AEO program.

In addition to an office and furnishings, each supply chain security specialist requires a computer with access to risk management databases and the automated Customs declaration processing system. Laptop computers and digital cameras should be available for documentation of validation visit findings. Because working with AEOs requires supply chain security specialists to visit company premises regularly, dedicated transportation is required as well. Secure (i.e., lockable) filing cabinets are required because AEO applications, security profiles, and related files contain sensitive information that must be safeguarded. Communications capabilities, including mobile telephones and Internet access, are also required. The administrative department of the Customs administration should take the necessary actions to ensure that these logistical resources are provided.

STEP 9: ANNOUNCE AND PROMOTE THE AEO INITIATIVE

After the AEO standards, benefits, and application process have been finalized and supply chain security specialists have been recruited and trained, Customs should launch an outreach campaign announcing Customs' new role as protector of the international supply chain and its commitment to facilitating the movement of legitimate shipments. The importance of this campaign cannot be underestimated. For a voluntary AEO program to work, Customs must have the support and participation of stakeholders from inside and outside the government; it therefore must promote the AEO program both within Customs and among other government stakeholders, as well as to the business community and other interested parties. For this reason, the Customs chief executive should assume primary responsibility for outreach. The chief executive can be the face of this program to the public and to other ministers, but he or she probably does not have the specialized skills to design the communications strategy for the program. This should probably be done by the public information office in cooperation with the AEO working group.

OUTREACH WITHIN CUSTOMS AND TO OTHER GOVERNMENT AGENCIES

The success of the program depends on the Customs workforce's understanding of the program and willingness to support it. Employee buy-in is essential. The chief executive and project manager brief field office managers on the AEO concept, the role of Customs in supply chain security, and voluntary compliance. The AEO working group makes arrangements for the chief executive and other managers to speak at public forums and schedules the chief executive to meet with employees at major Customs offices. At least one member of the working group should accompany the chief executive at each venue to assist in answering technical questions and to document the presentation, to record questions or issues that need further consideration and response, and to ensure that follow-up actions are carried out promptly.

Other government agencies that have import or export requirements must also understand how an AEO program affects them. Simplified procedures are not just a Customs concern; other agencies' concerns and processes must be factored into the program and issues solved to everyone's satisfaction. This may be difficult: other agencies or ministries may think that Customs is trying to take charge and that this could result in a cut in their budgets, staffing, or responsibilities. In this event, the Customs chief executive will probably have to enlist the support of the minister who oversees Customs to engage potentially problematic government departments at the ministerial level.

OUTREACH TO THE TRADE COMMUNITY AND THE GENERAL PUBLIC

The outreach program must also explain the AEO program to the trade, the general public, and the press, emphasizing supply chain security, voluntary compliance, industry partnerships, and expedited procedures. The public information officer or communications coordinator helps schedule and prepare talking points and seeks to attract media attention to the AEO program. The public information officer or communications coordinator also publishes informational brochures, newsletters, and the like. Field managers brief employees, traders, and interested organizations in their communities and report to the project implementation team about each presentation.

Customs managers must convince potential AEOs (1) that the benefits of voluntary participation will exceed the cost of meeting program requirements and (2) that the Customs administration is committed to a partnership approach. International organizations and donors should be kept apprised of the project's progress, beginning in the earliest planning stages. They understand the importance of an AEO program and may be willing to provide financial or technical support. It would be wise to maintain a dialogue with the WCO as the project develops.

As noted in Step 6, companies must understand how participation in the AEO program will benefit them by simplifying processes and making them more attractive business partners in a global environment in which the security of the supply chain is increasingly important. They must be persuaded that the benefits of participation will outweigh the costs.

Customs administrations that have successfully used the partnership approach or consultative committees in previous initiatives to develop a working relationship will have a head start on promoting the AEO program. Administrations with less experience

EXHIBIT 2-4
Do These Views Sound Familiar?

CUSTOMS PERSPECTIVE	TRADE PERSPECTIVE
"We've modernized. Our new Customs code now includes the GATT Agreement on Customs Value."	"Customs officers ignore our declared valuations and rely on 'market research' or whatever the individual officer thinks the goods are worth."
"We can't trust traders. They routinely undervalue their goods. Their suppliers in other countries are well known for false invoicing. Transaction value just doesn't work here."	"We can't trust Customs. No matter what values we declare, Customs arbitrarily raises them. There's no uniformity and no predictability."
"We've modernized. We accept electronic declarations."	"Customs doesn't officially accept the declaration until we deliver the hard copy to their office. Then they make us change the electronic version to raise the declared values before they accept it."
"We give the traders reasonable options: revise the value now and get the goods released, or insist on the value and appeal. We'll hold the goods until you get a decision from our headquarters."	"Headquarters always accepts the officer's recommendation. In the meantime, we're paying storage costs and don't have access to our goods. It's cheaper to pay the higher duties."
"We don't penalize the trader if he agrees to our 'valuation uplift.' We simply change the declaration in our automated system before we register it. It's easier this way."	"Customs officers don't use the amendment function in the automated system so there is no record of which officers are raising values or how much they're raising them. This allows each individual officer to do whatever he pleases."
"Traders will never change. They're always going to undervalue their goods."	"The valuation process is just a negotiation. Why shouldn't I start at the lowest amount?"
"Traders complain constantly."	"Customs never listens to us."

working with consultative committees may be all too familiar with the attitudes and opinions cited in Exhibit 2-4.

Adversarial attitudes and opinions raise the following potential impediments to AEO program implementation:

- Trader cynicism based on partially unmet promises (GATT valuation)
- Mutual distrust
- Failure to communicate effectively or develop productive working relationships
- Potential inability to quantify compliance levels.

Whether traders complain openly or mutter their criticism quietly, the Customs administration must face the issues and demonstrate its willingness to discuss mutual frustration and desire for improvement in a nondefensive way. Even in the worst cases, there is good news: an AEO program does not just require change, it also provides the impetus and the means for making change happen.

For Customs administrations whose potential partners doubt that a partnership is possible or that Customs will follow through on its promises of meaningful benefits for joining the program, an AEO program can facilitate the transition from mistrust to mutual respect. If this transition has not yet been realized, those on both sides must be willing to strive to reach mutually acceptable solutions to what may have been considered insurmountable differences.

How does the trading community win the trust of Customs? By

- Demonstrating a continued record of compliance,
- Establishing good communications and reporting suspicious activities,
- Demonstrating a desire to collaborate,
- Ensuring that all employees behave ethically, and
- Demonstrating respect and not immediately assuming the worst.

How does a Customs administration win the trust of the trading community? By

- Being transparent and consistent;
- Ensuring that the trading community has access to decision makers;
- Reducing administrative burdens;
- Demonstrating a desire to collaborate;
- Ensuring that all employees behave ethically; and
- Demonstrating respect and not immediately assuming the worst.

This calls for vigorous outreach, training, and emphasis on compliance. Behaviors may not change overnight across the board, but if Customs can win the cooperation and commitment of the largest companies and demonstrate that compliance has its rewards, that message will gain impetus and the AEO program will grow in size and impact.

OUTREACH TO OTHER NATIONAL CUSTOMS ADMINISTRATIONS

As the AEO concept spreads around the world, mutual recognition between countries will become increasingly important. Key trading partners or fellow Customs union members will probably be the first candidates for mutual recognition agreements, and they should be made aware of the AEO initiative. See Step 11 for details.

STEP 10: PILOT THE AEO PROGRAM

In Step 5, the project implementation team and the risk management department analyzed 12 months of Customs declarations and identified the importers, exporters, transporters, and brokers with the most declarations, the highest Customs value, and greatest revenue contribution. The initial purpose of that analysis was to determine whether a past level of compliance could be determined for the most active companies. These active companies are the most likely candidates for piloting the AEO program.

Pilot testing should include only a representative sample of companies from different industry segments that are the most proficient in Customs compliance, have the highest volume of transactions, and have effective internal processes. The WCO recommends instituting a pilot with no more than 10 companies. This ensures that requirements, documentation, procedures, and day-to-day operations mesh and enables the quick identification and resolution of unanticipated problems. Pilot companies should also be located in the same city as Customs headquarters or in close proximity. This allows Customs to focus in the pilot on implementing simplified procedures and providing benefits at a single Customs clearance office.

Examples of promotional brochures and publications of the Customs administrations of New Zealand, Sweden, Singapore, the United States, and the United Kingdom are provided on the CD that accompanies this handbook.

When the candidates for the pilot have been identified, representatives of the AEO working group brief the companies' decision makers on the requirements and benefits of the AEO program and invite their participation in the pilot.

A senior supply chain security specialist is responsible for the day-to-day supervision of the Customs processes and personnel associated with the AEO program, including

- Developing an annual work plan to address security vulnerabilities;
- Serving as the primary liaison with the WCO and counterparts at other Customs administrations;
- Assigning workload;
- Reviewing work products;
- Periodically contacting AEOs to ensure that an effective working relationship is being maintained by the supply chain security specialist assigned to them;
- Ensuring the integrity of official relationships between supply chain security officers and their assigned companies and points of contact;
- Ensuring the integrity of office files and records, and
- Reviewing appeals and recommending appropriate action to the Customs chief executive.

A subordinate supply chain security specialist should be assigned as a liaison officer to each pilot company. If the company requests, the specialist assists the company in developing its procedures and security profile.

The AEO working group works with the Customs training and development department to develop and provide training on the AEO program to the companies in the pilot. The AEO working group and supply chain security specialists develop and provide training to pilot company managers and staff. Because supply chain security specialists, in carrying out their duties, form relationships with company points of contact, attention must be given to ensuring that these relationships are conducted with professional and personal integrity and do not become overly familiar.

The AEO working group and project implementation team determine the period of pilot testing (three to six months is recommended) and commence implementation. The AEO working group monitors the performance of the companies and the Customs administration. Procedural or policy adjustments may be made during the pilot. At the end of the pilot, a detailed report is made to the Customs chief executive and stakeholders. If adjustments to the program guidelines are necessary, they are made.

After the pilot has been completed, the AEO program can be expanded incrementally. The AEO working group determines the pace of the expansion. It makes a public announcement explaining the process in broad terms and inviting interested companies to attend briefings at Customs offices. The Customs chief executive announces the full implementation of the AEO program. Customs may find it advantageous to incrementally expand the program by opening it to additional categories of companies according to the volume of companies' Customs transactions. Each entity is different, so piloting with a few importers/exporters first and then opening the pilot to other

imporrters/exporters works well. Then, if resources permit, a pilot can be conducted with brokers, and so on. Expansion would progress in this manner until all the types of companies envisioned to be eligible for AEO status have been pilot tested.

When the AEO program has been fully implemented and permanent management of the program has been transferred to a Customs department, the project implementation team ceases to participate in the AEO program, but the AEO working group continues to oversee it and serve as the vehicle for industry input. Ideally, Customs assigns at least two representatives to the AEO working group: a deputy to the chief executive and the head of the risk management department (or whatever department is in charge of the program). The AEO working group works with the Customs department managing the program and the training and development department to update the training curriculum, and training is given periodically to applicants.

STEP 11: CONSIDER MUTUAL RECOGNITION ARRANGEMENTS

Mutual recognition is an aspect of the AEO concept that is still being developed. The WCO holds that mutual recognition offers significant potential and is developing guidelines. At this time, however, mutual recognition programs are in their infancy.

Mutual recognition allows each country's Customs administration to rely on the standards and safeguards imposed by the other. Mutual recognition will become more important as the 157 Customs administrations that have committed to implementing the SAFE Framework make their programs operational. At this stage, though, Customs administrations developing AEO programs should at least consider ensuring through government-to-government coordination that their efforts are compatible with the efforts of their major trading partners.

Generally, mutual recognition requires that supply chain security programs have well-defined security criteria, are fully operational, and that Customs has procedures to verify that AEOs meet their commitments. Customs administrations considering mutual recognition arrangements first initiate high-level customs-to-customs discussions and establish working groups that

- Conduct and document a side-by-side comparison of each country's program,
- Conduct visits to observe and evaluate each other's validation processes to ensure that they are comparable,
- Explore the feasibility of information sharing in the context of each country's legislation, and
- Develop operational procedures.

The WCO's *Integrated Supply Chain Management Guidelines* suggest that to enable mutual recognition, Customs administrations have to bilaterally or multilaterally agree on common control and risk management standards, sharing intelligence and risk profiles and joint monitoring. Although the WCO has not issued guidelines for mutual recognition, individual Customs administrations have already undertaken such

arrangements. U.S. Customs and Border Protection (CBP) has mutual recognition arrangements with New Zealand, Canada, Jordan and Japan. The United States has also engaged in discussions with the Customs administrations of Singapore, the European Union, and Korea, as well as with countries that have not yet developed AEO programs.

The CBP policy has been to sign mutual recognition agreements that are nonbinding instruments. The reason for this is that the C-TPAT program, is voluntary, and to maintain the flexibility that comes with that status, a flexible instrument is needed. Signing an agreement is a lengthy process and is usually implemented with a follow-on operational document that details how the agreement is to be implemented. Exhibit 2-5 summarizes the process that the United States has used for mutual recognition.

EXHIBIT 2-5
Process Used by the United States to Establish Mutual Recognition Agreements

PHASE I—EVALUATION

Generally, mutual recognition requires that the supply chain security programs of the involved countries have well-defined security criteria, that they are fully operational, and that Customs has procedures in place to verify that AEOs meet their commitments. When the requirements are met, each Customs administration analyzes the business partnership program of its counterpart:

- Business partnership program officers on each side engage in an in-depth, side-by-side analysis of both programs and note gaps.
- Program officers visit their counterparts to develop a deeper understanding of the procedures, policies, and practices of their program.
- Each country's legal authorities determine if the legal foundations for entering into a mutual recognition agreement exist.
- A report on the similarities and differences of the two programs is written (for internal purposes);
- A joint findings document takes this report into consideration and includes proposed resolutions;
- Decisions are made on the feasibility of continuing to the next stage.

PHASE 2—OPERATIONAL PLANNING AND TESTING

Planning for how mutual recognition between the two administrations will work is undertaken. After operational and policy issues have been resolved a pilot program is developed. The following steps are taken:

- Identify companies willing to participate
- Develop methodology and measures for communication, feedback, and evaluation for Customs and trade
- Determine a protocol for reporting security breaches
- Issue a document that defines the pilot
- Develop a communications strategy.

PHASE 3—PILOT

When a pilot is conducted, decisions on how widely it will be promoted are made. If both Customs administrations have confidence in each other's program, a pilot may not be necessary. The Customs administrations

- Conduct the pilot,
- Write an internal report and evaluation, and
- Issue a joint findings document that includes Customs' and the trade community's views, recommendations, and resolutions.

PHASE 4—DECLARATION OF MUTUAL RECOGNITION

The Customs administrations decide to mutually recognize each other's program. A statement of what mutual recognition means and how it will work is released. The statement specifies

- Verification provisions,
- Review periods and methodologies, and
- National security provisions such as protocols to be followed during and after an event or when suspension of mutual recognition is merited.

3. CASE STUDIES

The SAFE Framework offers general guidance for designing and implementing AEO programs while providing enough flexibility to accommodate different needs and perspectives. This section highlights those differences by presenting case studies of diverse places where AEO programs have been implemented successfully:

- In the United States, C-TPAT has a history of cooperation between Customs and private industry in securing the global supply chain that predates the September 11 attacks.

- Sweden has built on a strong relationship between Customs and the private sector in implementing the Stairway, an AEO program that served as a model for the European Union's program. By simplifying procedures and improving services, Sweden has increased private sector participation in the program.

- New Zealand's Secure Export Scheme demonstrates that AEO programs need not always be import oriented; protecting export markets is also a function of AEOs. The Secure Exports Scheme is an international benchmark that is studied by Customs administrations throughout the world.

- Jordan designed and implemented its Golden List program emphasizing project management principles, an uncommon achievement for Customs administrations in the developing world. Jordan leveraged donor assistance to develop an AEO program that achieved mutual recognition from U.S. Customs and Border Protection.

- The European Union, the world's largest trading bloc, includes some of the world's most competitive economies as well as countries whose economies are not as mature. Despite considerable cultural and economic differences among its members, the European Union managed to develop unified AEO guidelines in 2008.

- In Argentina, the System of Reliable Operators (SOC) program recognizes AEOs regardless of size. The SOC is open to micro, small, and medium businesses, as well as larger players in the international supply chain.

UNITED STATES: LEVERAGING A STRONG HISTORY OF PRIVATE SECTOR PARTNERSHIP

U.S. Customs (now CBP) has a long history of working with industry leaders to stem the flow of contraband across U.S. borders (see Exhibit 3-1). The U.S. Customs administration recognized in the early 1980s that to provide the highest level of security, it must work in partnership and close cooperation with the ultimate owners of the supply chain: importers, carriers, brokers, warehouse operators, and manufacturers.

C-TPAT, which is the basis of the U.S. AEO program, was implemented shortly after the terrorist attacks of September 11, 2001. C-TPAT's primary goal is to prevent weapons of mass destruction and those who would use them from compromising the international supply chain. Participation in the program is voluntary; members commit to ensuring the integrity of their security practices and ensure, through contractual means, that their business partners throughout their supply chain satisfy their security expectations. In return, CBP commits to providing expedited clearance procedures, dedicated lanes, fewer inspections, and account-based processing. CBP also assigns a supply chain security specialist to assist C-TPAT members in all security-related issues.

The C-TPAT partnership approach emphasizes prevention over interdiction, shared responsibility, and awareness of security and smuggling. C-TPAT recognizes the complementary role that member companies fill and balances national security interests with facilitating legitimate, compliant trade, thereby allowing CBP to focus on its greatest perceived risk: the fight against terrorism. In a survey of 1,756 C-TPAT members, four of 10 participants did not have a formal supply chain security plan before joining the program. Eight of 10 indicated that their ability to manage supply chain risk had been strengthened as a result of joining the program. The security criteria were generally viewed as very or somewhat easy to implement and more than half indicated that the benefits either outweighed the costs or were about the same.

The C-TPAT strategic plan recognizes that through partnerships, CBP educates and has been educated, has heightened awareness of weaknesses, and has gained the trust of the trade. C-TPAT has a positive effect on international business, with companies requesting security information from service providers, vendors, suppliers, and manufacturers. Many C-TPAT companies contractually require their business partners to improve security to meet C-TPAT guidelines. This is perhaps the greatest success of C-TPAT. These partnerships help CBP speed low-risk shipments across the borders and through ports of entry, preserving global trade despite the threat of terrorism.

JORDAN: USING PROJECT MANAGEMENT PRINCIPLES AND DONOR ASSISTANCE EFFECTIVELY

Jordan has minimal natural resources, a growing population that includes many refugees, and neighboring countries in conflict. Despite these challenges, Jordan has increased its exports, including significant exports to the United States. Although it remained secure and stable in a troubled region, Jordan suffered from the September 11 terrorist attacks.

EXHIBIT 3-1

Timeline of U.S. Customs Voluntary Industry Partnerships

1984. The Carrier Initiative Program is created as a cooperative effort between air, sea, highway, and railway transporters to prevent drug smuggling by commercial transporters. Program members commit to strengthening their security measures in domestic and foreign terminals and cooperating closely with U.S. Customs in identifying and reporting smuggling attempts and other illicit activities. In return, Customs commits to performing security audits of the carrier's domestic and foreign operations, conducting postseizure analysis, and providing training on identifying and eliminating weaknesses in internal security systems.

1989. The Super Carrier Initiative Program focuses on large airline and ocean transporters that operate in locations with great potential for drug trafficking. Program members commit to implementing proactive security programs and become less vulnerable to drug-related penalties.

1995. The Land Border Carrier Initiative Program focuses on truck, rail, and bus companies. Members commit to preventing their equipment and facilities from being used for the smuggling of illicit substances, perform background checks on employees, and establish strict personnel and physical security standards. Customs commits to expedited clearance procedures.

1996. The Business Antismuggling Coalition, a business-led alliance to combat smuggling, is formed on the basis of a proposal from importers at the port of San Diego. It addresses the entire process of manufacturing, emphasizing security at foreign manufacturing sites. Customs works with business communities in seven countries through this program.

1998. In the American Countersmuggling Initiative Customs sends specialized teams of officers to each country in the Business Antismuggling Coalition four times a year to provide training and

on-site audits.

2001. C-TPAT aims to protect the entire international supply chain, including importers, transporters, brokers, warehouses, terminal operators, and manufacturers. C-TPAT becomes the core of all industry partnership programs.

2002. The Importer Self-Assessment Program is opened to C-TPAT importers that commit to implementing internal controls and maintaining an audit trail. Customs gives members increased compliance assistance, risk assessments, internal controls, audit trails, and data analysis support. Program members assess their own compliance with Customs laws and regulations and are removed from the regulatory audit pool for each specific area in which they establish adequate internal controls to ensure compliance.

2002. The United States, Mexico, and Canada agree to coordinate their commercial border clearance processes in the Free and Secure Trade (FAST) Program by using common risk-management principles, supply chain security, industry partnership, and advanced technology to improve the efficiency of screening and clearing commercial traffic at their borders. FAST is open to C-TPAT carriers, drivers, importers, and manufacturers and provides dedicated lanes, fewer examinations, enhanced supply chain security, and safety while protecting the economic prosperity of member countries.

2006. The C-TPAT Tiered Benefits program recognizes importers that do more to secure their supply chains. Tier 1 consists of certified importers that receive the basic benefits of a certified C-TPAT member. Tiers 2 and 3 provide progressively increased benefits for those who go beyond minimum requirements.

After September 11, perceptions of risk about Jordanian imports increased, and Jordan's export market to the U.S. declined.

To boost exports, Jordan Customs moved quickly to develop and implement an AEO program, which it calls the Golden List. The SAFE Framework Standards, which were still under development at the WCO at the time, were incorporated into the program. The design and implementation of the Golden List program followed internationally recognized Project Management Institute (PMI) standards, starting with stakeholder identification and analysis. Jordan Customs already had a risk management unit, which was a natural selection for taking charge of the AEO program. Jordan Customs involved the private sector early on, including all key business elements in the supply chain from exporter to importer. During stakeholder identification, Customs also recognized that other agencies have a legitimate mandate at the border—in other words, compliance for risk management means compliance with all regulations.

The Golden List program started with the identification of the following security risks and strategic goals:

- Recognition by importing countries of Jordanian exporters' lowered risk profile
- Minimal disruption to companies from Jordan Customs while validating compliance with the Golden List program standards
- Adequate rewards for companies offsetting the cost of participation in the program
- Recognition that because new processes were introduced in both the Jordan Customs and the private sector, project success was contingent on technical assistance from the sponsoring USAID project for both Customs and the private sector
- A single program that included recognition of the high likelihood of compliance with all tariff and nontariff measures and supply chain security in the recognition of Golden List participants
- Customs' agreement with participants that during the planned compliance audit, any inadvertent historical errors or omissions discovered would be corrected, and additional duties or taxes—but no penalties—would be paid if owed.

The outcome of the strategic planning was a project plan that included

- Timelines and milestones;
- Selection of project implementation team members, including both Customs and private sector companies;
- Work breakdown, including work packages for donor-funded technical experts, Jordan Customs, and the private sector; and
- Budgeting, including donor funding levels, in-kind funding by Jordan Customs, and in-kind and monetary funding from the private sector.

The following lessons were learned from the Jordan Golden List program:

- Technical assistance to all stakeholders, including the private sector, is needed.
- USAID and CBP both have important roles to play in AEO program development.
- A phased approach will permit more companies to participate sooner.
- Keeping commitments for facilitating low-risk shipments is vital.
- Program success depends on long-term vision and commitment.

In June 2008, Jordan Customs Department and CBP signed a mutual recognition arrangement to recognize compatibility between the Jordanian and U.S. cargo security programs.

NEW ZEALAND: PROTECTING EXPORT MARKETS

New Zealand developed the Secure Exports Scheme (SES) for exporters and launched it in 2004. Before SES, Customs had minimal interaction with exporters and export cargo, but in the changed security environment after September 11, 2001, the country wanted its exports to move with minimum disruption across borders and be recognized as low risk. Similarly, business partners wanted to avoid interruption to the international supply

EXHIBIT 3-2
Timeline of the Development of the Jordan Customs Golden List Program

September 2003. Jordan Customs and USAID agree to design and implement an AEO Program.

October 2003. Jordan Customs completes the legal research necessary to create an enabling environment.

November 2003. Compliance audit training is conducted.

February 2004. The first public information seminar is held.

March 2004. Volunteer pilot test companies are selected for all supply chain industries.

April 2004. AEO program plan, with final target dates and responsibilities, is drafted.

May 2004. Jordan Customs Department finalizes its Compliance Audit Manual and participates in a public information seminar sponsored by Customs and the pilot test companies.

October 2004. Compliance manuals for each industry segment are drafted.

December 2004. At the WCO biannual meeting in Amman, informal discussions between Jordan Customs Department and CBP are held.

March 2005. The WCO provides an advance copy of the SAFE Standards to validate the Jordan Customs Department's Golden List Program planning.

May 2005. Jordan Customs Department provides training to private sector companies.

June 2005. The WCO issues the SAFE Standards. Jordan Customs and pilot test companies hold public seminar.

July 2005. Jordan Customs conducts compliance audits of pilot AEO companies. CBP and Jordan Customs begin mutual recognition process, beginning with assessment of Golden List supply chain security components against C-TPAT program.

August 2005. Jordan Customs officially launches Golden List Program and opens participation to other qualified Jordan companies.

February 2006. Marketing of Customs Golden List program is conducted with Jordan Enterprise Development Corp, Jordan Investment Board, and Jordan Exporters Association.

March 2006. USAID technical assistance ends and Jordan Customs, private sector participants, and CBP continue developing program.

June 2008. Jordan Customs and CBP sign mutual recognition agreement at WCO annual meeting, making Jordan the second country to receive this recognition from CBP.

chain, to be certain that their goods would arrive at destination as planned, and to meet their customers' requirements.

SES was developed through working with companies and industry groups. Customs reviewed seven years of export history in its database and determined that the top 250 exporters by value and volume accounted for 80 percent of trade. These exporters were given priority during the development and introduction of the program. Policies and procedures were developed as the concept evolved.

SES has 106 participants, and although changes have been made to the program, no partner has withdrawn for lack of benefits. The SES provides the following benefits:

- SES benefits Customs officers when making decisions on whether export cargo should be inspected before export because they know that the partner's cargo is low risk.

- SES benefits and assists business partners by providing them with a point of contact to address any Customs matter and the expectation that they will receive priority clearance of their goods for export.

- SES benefits both Customs and partners by enabling each party to learn about the other's processes. Customs personnel say they enjoy their interaction with businesses at the detailed level at which the scheme operates. In meetings they can articulate the impact that any proposed business or Customs change will have on a partner's

operation. Staff turnover in this area of client services is low, and other personnel see this role as a good professional development opportunity.

- SES benefits the government and the economy by ensuring that exports from New Zealand are recognized as carrying a low security risk and by maintaining New Zealand's reputation as a safe trading country.

SES ensures communication between the partner and the designated Customs contacts. There are no formal means of communication or contact, but the Customs client service officers must maintain contact and provide assistance on request.

Customs promoted SES as part of the FrontLine Programme, which had been introduced a few years before to provide advice on Customs procedures and areas of interest to business at their premises and to public interest groups. Client service officers meet every six weeks to discuss the SES program, its promotion, and their contribution to its implementation and to receive training on site security. The implementation of the SES program by Client Services was achieved with no increase in baseline costs or personnel.

As SES matured, Customs produced a range of public communication, from stand-alone informational documents for exporters to weekly Customs Release newspaper and magazine articles, Customs Contraband magazine articles, the Customs website, and public presentations made around the country. The brochure Helping You Do Business and a series of fact sheets provide detailed information about the SES to applicants and their supply chain participants and/or partners. The fact sheets are available in print and electronically on the Customs website. (Copies are also included in the CD accompanying this handbook.)

The SES has been studied by Customs organizations from South Africa, Singapore, China, Japan, Vietnam, Canada, Hong Kong, Malaysia, and Australia. It has been showcased at international conferences such as those of APEC and the World Customs Organization. New Zealand Customs has signed mutual recognition arrangements with the United States and Japan.

SWEDEN: SIMPLIFYING PROCESSES AND IMPROVING SERVICE

In 1998 Swedish Customs, taking a holistic approach to reform and modernization, began developing and implementing a new system, dubbed the Stairway. In the first phase, Customs and the trade community worked together to identify business needs and opportunities for simplification of Customs processes. The second and third phases were pilot tests, and the Stairway opened for all companies in March 2002. Implementation in pilot phases was important for creating the best solutions for both Customs and trade.

Several trade and industry organizations participated in the development of the Stairway; this partnership is the cornerstone of this system. Challenges were handled through dialogue and partnership. Businesses recognize the value of bearing the Stairway logo and being certified in the Stairway system.

The Stairway provides simplified procedures and improved service to operators that certify the quality and security of their business. This enables Customs to facilitate legitimate trade while promoting security to ensure that no illegal activity takes place. Customs thus maximizes use of its resources and provides a high level of service to reliable trade partners. The Stairway encompasses all modes of transports and is open for all companies dealing with Customs, such as importers, exporters, and agents, regardless of size or line of business.

The Stairway is a single window based on an electronic, paperless process. Companies present their information to Customs one time. Customs determines the appropriate level of control according to its own risk assessment, which includes input from other agencies. Risk management is an important part of the Stairway system because it makes identifying and controlling high-risk goods, procedures, and operators possible. At the same time it identifies low-risk operators and shipments to facilitate their clearance and simplify their Customs procedures.

To become a certified operator in the Stairway, a company goes through an extensive accreditation process. Applicants must first quality-assure Customs routines and security. Customs visits and evaluates the company using a risk assessment model. If everything is in order, the company is certified as an AEO with a tailor-made control program. It is then treated as a low-risk operator with access to a range of facilitation possibilities. The Stairway consists of five steps. Each step provides specific opportunities and requirements: the greater responsibility an operator takes for the quality and security in his Customs processes, the more options for simplification Customs can offer.

As a consequence of the terrorist acts of September 11, 2001, demands for security in the global supply chain increased. Instead of developing a separate system responding to safety and security risks, and in order to strike a balance between facilitation and control of international transactions, a security module for the Stairway, StairSec®, was developed. This certification brings security to the supply chain in the same way that certification in Customs procedures brings quality to the supply chain.

The development of the Stairway was supported by the EU Commission, both financially and with ideas. The European AEO standard was launched on January 1, 2008, and is now part of the Stairway. Swedish Customs continued to develop the Stairway with the aim of making it fully compatible with the AEO concept and launched a new version of the Stairway in March 2007. The new version contains criteria for AEO and AEO Guidelines. The concepts behind the new EU AEO standard are founded to a large extent on the Swedish Stairway system, so implementing the AEO concept in Sweden was easy.

EUROPEAN UNION: INCORPORATING DIVERSE MEMBERS

The European Union is the world's largest trading bloc. Its member states include some of the most competitive countries in the world as well as some states whose economies are still maturing. With so many languages and cultures and economic levels, developing a unified AEO program met significant challenges, but in January 2008 the EU Guidelines for Member State AEO Programs came into force.

In developing its AEO Program, each member Customs administration had to consider national programs that recognized participating companies. Some countries, such as the United Kingdom and Sweden, already had well-developed compliant-trader programs. Others had not yet incorporated this approach to risk management.

The EU methodology was to develop guidelines first, then test the guidelines with the private sector. The methodology incorporates applications for ensuring compliance with tariff and nontariff measures and security measures to prevent terrorist attacks. The EU methodology qualifies AEO companies at three levels:

- Customs Simplifications—for economic operators that meet the criteria of Customs compliance, recordkeeping standards, and financial solvency. The certificate holder is entitled to easier admittance to Customs simplifications; fewer physical and document-based controls; priority treatment if selected for control; and the possibility to request a specific place for such control.

- Security and Safety—for economic operators that meet the criteria of Customs compliance, appropriate recordkeeping standards, financial solvency, and maintenance of appropriate security and safety standards.

- Combination of Customs Simplifications and Security and Safety—for economic operators that meet the criteria of Customs compliance, appropriate recordkeeping standards, financial solvency, and maintenance of appropriate security and safety standards and that want to benefit from all AEO benefits.

The EU approach to the development of the European Commission's AEO Guidelines considered several elements and steps that other countries could learn from in developing their own AEO programs:

- Incorporate existing programs recognizing compliant traders

- Determine the objectives of the program, particularly the objectives of the private sector

- Incorporate to the fullest extent related ISO standards as indicators of the likelihood of compliance with tariffs and nontariff measures, specifically ISO 28001 for reduced risk in the supply chain and recognition of third-party registration to these standards

- Incorporate the full supply chain as members for eligibility

- Apply the concept of full-circle due diligence, requiring participants to check on the risk factors of their own supply chain

- Pilot-test the approach with selected companies before finalizing the guidelines

- Publish an instruction manual for companies to follow in preparation for applying for AEO recognition

- Recognize small and medium enterprises as a special category

The EU-wide AEO program, though new, has the advantage of having models from the other Customs administrations that implemented programs earlier and member states' compliant-trader programs.

July 2004. The European Commission presents proposed changes to Parliament and Council for supply chain security to be incorporated into law.

May 2005. The Community Customs Code is amended to include security requirements necessary to enable AEO programs.

June 2005. The WCO publishes the SAFE Standards.

June 2006. An AEO Compact Model is issued.

August 2006. A pilot case study report is published.

June 2007. Guidelines for member states AEO programs are issued.

January 2008. Member states start AEO programs in conformance with guidelines.

ARGENTINA: OPENING AEO PROGRAMS TO BUSINESSES OF ALL SIZES

After the terrorist attacks of September 11, 2001, as Customs controls were tightened globally, the Argentinean Customs Authority began to rethink the manner in which it exercised controls despite the economic crisis that the country was experiencing. Recognizing the extent to which international trade had grown in size and complexity, Argentina Customs began reformulating its control scheme so that Customs would no longer merely serve as an instrument of control and revenue collection but would take on the broader role of promoters of trade and exchange and protectors of national security.

Argentina's modernization process started in 2004. Guidelines were established under the SAFE Framework and included the formation of the Risk Management Directorate in 2006. The Risk Management Directorate was made responsible for supporting the new Customs structure with risk management expertise, including providing risk analysis on goods potentially harmful to the environment or to the health and safety of Argentinean society as well as analyzing the risks related to copyright infringement, narcotrafficking, and commercial fraud. The Risk Management Directorate was also made responsible for implementing new technology for control and security through special systems such as an AEO program.

In 2006, Customs implemented its new vision of controls establishing the System of Reliable Operators (SOC) and charged the Risk Management Directorate with the responsibility for evaluating registrant applications, supporting documentation, and compliance. (These documents are available in Spanish on the CD that accompanies this handbook.)

The SOC initiative benefited from intensive interaction between Customs and businesses in the design stage and through subsequent modification and enhancement. This initiative resulted in a work plan that included

- Technological investment of US$60 million for five years (2003–2008),
- Flexibility to incorporate regulatory changes, and
- Adaptation of existing software systems.

In 2008, the SOC program was expanded to include micro, small, and mediu-sized businesses (with a maximum of 40 employees). (Exhibit 3-4 summarizes the timeline of the development of the SOC program.)

The SOC program gives participants the following benefits:

- Priority access to streamlined procedures
- Reduced operational costs and times and external trade flexibility
- Information security and network logistics
- Use of the Green Channel

- Future recognition by Customs administrations that have signed a mutual recognition agreement with Argentinean Customs.

The SOC program is based on a legal framework that does not relinquish control to the private sector but is based on traceability. It sets forth flexible requirements for various types of businesses, depending on degree of complexity of business processes. The SOC design is not only for large operators but also for micro, small, and medium-sized enterprises, an important sector in Argentina.

Lessons learned in the implementation included:

- The private sector is needed in the development and refinement of the AEO program.
- The program provides mutual benefits—for the private sector, added value to the product, and for the public sector, a secure Customs.

EXHIBIT 3-4
Timeline for Implementation of Argentina's SOC

June 2005. SAFE Framework released by the WCO; Argentinean Customs begins to design its AEO program.

November 2005. Implementation of the Secure Container Initiative. The Port of Buenos Aires is certified as a Secure Port, the first in Latin America.

February 2006. Customs establishes a new Risk Management Directorate.

August 2006. Customs issues External Note No. 37/2006,

establishing the initial AEO program framework.

November 2007. General Resolution No. 2350 implements the SOC.

July 2008. External Note No. 48/2008 expands the program to micro, small and medium businesses.

December 2008. A new Automated Information System for implementation of Reliable Operators is developed.

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4. BEST PRACTICE REFERENCES

The following reference materials are included in the AEO Best Practices CD that accompanies this handbook. These materials have all been made available to the public on various websites and are current at the time of publication of this handbook.

AEO BENEFITS

- U.S. Customs and Border Protection
  - FAST Reference Guide
  - C-TPAT Cost Benefit Survey

- European Union
  - AEOC Certificate Fact Sheet
  - Authorised Economic Operator Guidelines, Part 1, Section 3

APPLICATION FORMS

- Luxembourg Customs and Excise
  - Application for an AEO Customs Simplifications Certificate

- Singapore Customs
  - Application for Secure Trade Partnership
  - Handbook on Secure Trade Partnership

- U.S. Customs and Border Protection
  - US C-TPAT Online Application

PROMOTIONAL BROCHURES

- New Zealand Customs Service
  - Secure Exports Scheme

- Swedish Customs

- Stairway Concept Brochure
- White Paper on the Accreditation of Operators and Supply Chain Security

- Singapore Customs
  - Secure Trade Partnership Guidelines

- U.S. Customs and Border Protection
  - FAST Fact Sheet
  - FAST Reference Guide

- U.K. Revenue and Customs
  - Notice 117 Authorised Economic Operator

FINANCIAL VIABILITY

- Luxembourg Customs and Excise
  - Application for an AEO Customs Simplifications Certificate (Section 4)

- European Union
  - AEOC Certificate Fact Sheet
  - Authorised Economic Operator Guidelines, Part 2, Section 4

INFORMED COMPLIANCE/COMPLIANCE MEASUREMENT

- U.S. Customs and Border Protection
  - Office of Strategic Trade Importer Self-Assessment Handbook
  - Importer Self-Assessment Frequently Asked Questions
  - Reasonable Care—A Checklist for Compliance

- European Union
  - AEOC Certificate Fact Sheet
  - Authorised Economic Operator Guidelines, Part 2, Section 1

PROGRAM PLANNING AND MANAGEMENT

- US Customs and Border Protection
  - Securing the Global Supply Chain – C-TPAT Strategic Plan (2004)

- USAID
  - Customs Modernization Handbook – Establishing a Program Management Process

- U.S. Department of Agriculture
  - Project Management Handbook Appendices, Version 1.0

RECORDS MANAGEMENT

- European Union
  - AEOC Certificate Fact Sheet
  - Authorised Economic Operator Guidelines, Part 2, Section 1.2.3.1 – 1.2.3.3

- U.S. Customs and Border Protection
  - Records and Recordkeeping Requirements

SECURITY PROFILES

- Argentina Customs
  - Nota Externa N° 37/2006 (DGA) Sistema de Operadores Confiables para
    Destinaciones de Exportación.

- New Zealand Customs
  - Fact Sheet 34 Secure Exports Scheme
  - Fact Sheet 34A Secure Exports Scheme Security Plan
  - Fact Sheet 34B Secure Exports Scheme Process Map
  - Fact Sheet 34C Secure Exports Scheme Site Plan
  - Fact Sheet 34 D Secure Exports Scheme Transport Operators

- Singapore Customs
  - Secure Trade Partnership Guidelines
  - Guide for Completing Security Profile
  - Handbook on Secure Trade Partnership

- U.S. Customs and Border Protection
  - Security Criteria for Air Carriers
  - Security Criteria for Brokers
  - Security Criteria for Highway Carriers
  - Security Criteria for Importers
  - Security Criteria for Manufacturers
  - Security Criteria for Rail Carriers
  - Security Criteria for Marine Port Authority and Port Operators
  - Supply Chain Security Best Practices Catalog

- International Federation of Customs Broker Associations
  - IFCBA Guidelines: A Framework to Increase Supply Chain Security and Facilitate
    Trade

INTEGRITY

- U.S. Agency for International Development
  - Customs Modernization Handbook: Establishing and Implementing a Customs
    Integrity Program

- World Customs Organization
  - Integrity Best Practices Compendium
  - Integrity Development Guide

U.S. Agency for International Development
1300 Pennsylvania Avenue, NW
Washington, D.C. 20523
Tel: 202-712-0000
Fax: 202-216-3524
www.usaid.gov

Implementation AEO: Activity Plan / Roadmap				
Phase / Estimated Time frame	Activity	Output	Risk	Management of Risk / Responsibility
Pre-Phase	PCA fully staffed and conducting entity audits	Fully functional and effective PCA Unit performing entity audits and able to give an assurance on entity compliance / non-compliance	Not performing entity audits Not being able to give assurance on compliance for entities Delay in implementing AEO	Director General FBR / Director General Customs / Director Post Clearance Audit
	WeBOC PCA module fully functional and meets the requirements of PCA	Fully functional WeBOC PCA module used to assist in identifying / planning of audits	Not fully functional	Director General FBR / Director General Customs / Director Post Clearance Audit/ Director Reform and Automation (WeBOC)
Phase 1 Days 1 – 45	**Establish Project Implementation Team** -Identify and assign competent Project Manager (Full-time) - Identify and assign competent Customs Managers and Officers who are specialists in: - Risk management - Human resource management - Post clearance audit based controls - Policy and procedure development - Information technology (WeBOC) - Legal and policy advice - Public information - Front line operational staff should also be considered (audit officers) - Identify full / part time members - Ensure members of the team are allocated to their positions for the duration of the project - Draft job descriptions for each team member including objectives / deliverables	Project Implementation Team established	Implementation Team not established. - Identified members not released	Director General FBR / Director General Customs to ensure that Implementation Team is established.
		Job descriptions written and approved	Draft job descriptions not completed Initial meeting delayed	AEO Project Manager AEO Project Manager

Implementation AEO: Activity Plan / Roadmap				
Phase / Estimated Time frame	**Activity**	**Output**	**Risk**	**Management of Risk / Responsibility**
	- Arrange first and subsequent meetings - Initiate progress reporting/agree to frequency of reports **Communication/Outreach** Initial press release outlining AEO Initiate dialogue with WCO	First meeting arranged Progress reporting/frequency agreed upon Press release issued Dialogue with WCO initiated	Delay in appointing AEO Project Manager Project implementation delayed Project implementation delayed	Director General Customs Director General FBR / Director General Customs Director General FBR / Director General Customs

Phase 2
Days 45 – 80
	Establish an AEO Working Group
	- Identify and assign representatives from
	  • Relevant government departments
	  • Trade
	
	Arrange first meeting
	
	Communication/Outreach
	
	Explore possibility of study tour for AEO Implementation team
	Explore possibility of WCO visit
	Issue press release on AEO Implementation Team / AEO Working Group
		AEO Working Group established
		
		First meeting arranged
		
		Study tour arranged
		
		Visit by WCO arranged
		Press release issued
			AEO Working Group not established
			- lack of response from relevant Government Departments
			- lack of response from trade
			Initial meeting delayed
			
			Funding, suitable country
			
			WCO availability
			Delay in Phase 1 & 2
				Director General FBR / Director General Customs to ensure that AEO Working Group is established
				
				Director General FBR / Director General Customs
				
				AEO Project Manager
				
				AEO Project Manager
				Director General Customs/ AEO Project Manager

Phase 3 Days 45 – 80	**Define Project** **-** Draft scope of work for the project. This will	Project defined	Delay in Phase 1 (responsibility of	Director General FBR / Director General

Implementation AEO: Activity Plan / Roadmap				
Phase / Estimated Time frame	**Activity**	**Output**	**Risk**	**Management of Risk / Responsibility**
	include: • Define the project and direction • Explain the importance of the project • Name the Project Manager and establish their role and responsibilities including authority to make decisions • Name the implementation members and establish their roles and responsibilities • Establish communication pathways - Emphasize support from the project from senior management and the importance of the private sector in design and implementation of the AEO program. - Recommend the Directorate that will have responsibility for AEO after implementation - Propose resource figures to support the program - Propose hardware, etc. for the program	Agreement reached on Directorate who will have overall responsibility for AEO Resource figures proposed Hardware, etc. proposed	Implementation team) Delay in draft scope being submitted Non agreement Lack of resources / suitable staff Funding	Customs AEO Project Manager AEO Project Manager AEO Project Manager AEO Project Manager
Phase 4 Days 80 – 100	**Draft Project Implementation Plan** - This will include each task, person responsible, and time to be completed - State reporting period in respect of progress which will include detailing the work accomplished, tasks completed, delays and adjustments to the plan - Draft submitted to FBR Senior Management for comments and approval - Final plan published and distributed	Project Implementation plan drafted	Delay in Phase 1 Delay in draft project implementation plan	Director General FBR / Director General Customs AEO Project Manager
Phase 5 Days 100 – 150* * timeframe is subject to	**Define AEO Requirements**	AEO requirements defined	Delay in defining AEO requirements	AEO Project Manager

Implementation AEO: Activity Plan / Roadmap				
Phase / Estimated Time frame	**Activity**	**Output**	**Risk**	**Management of Risk / Responsibility**
change for draft legislation to be reviewed, accepted, and approved	- Define AEO requirements and agree whether this is required to be in draft regulations/sub-legislation / less formal instructions. If required through a change in legislation, draft submitted for approval – law approved by Parliament or decree (this will increase the timeframe) - Areas to be included: • Regulatory compliance • Business records management • Financial viability • Security • Crisis management and incident recovery • Communications and training	Legislation reviewed, amendments approved, change in legislation	Delay in legislation being approved	AEO Project Manager
	Communication/Outreach Issue press release on AEO criteria/ requirements	Press release issued	Delay in issuing press release	AEO Project Manager
	Other Government Departments affected by AEO to review/amend their current legislation if required	Legislation reviewed and amended, if required	Delay in reviewing/ amending legislation	AEO Project Manager / AEO Working Group
Phase 6 Days 100 - 150	**Define AEO Benefits** - Review, research, discuss and agree on the benefits that will be implemented in consultation with the trade - Ensure that the benefits are measureable and tangible - Discuss the impact of the benefits and if they are permitted	AEO Benefits defined	Delay in defining benefits	AEO Project Manager
	Communication/Outreach	Press release issued		AEO Project Manager

Implementation AEO: Activity Plan / Roadmap				
Phase / Estimated Time frame	**Activity**	**Output**	**Risk**	**Management of Risk / Responsibility**
	Issue press release on AEO benefits		Delay in issuing press release	
Phase 7 Days 150 - 180	**Design AEO Application Process** - Design application form - Draft detailed instructions on how to complete - Include transparent procedures to review, verify, and approve applications - Draft procedures for rejecting applications - Draft procedures for removing/suspending AEOs from the program - Design AEO certificate	AEO Application Process designed	Delay in designing application process	AEO Project Manager
Phase 8 Days 180 – 220	**Recruit /Train Customs Officers in AEO/ Supply Chain Security** - Identify staff to be involved in AEO program - Identify if a recruitment process is required - Provide adequate training to those involved in the AEO program	Customs Officers recruited/trained	Delay in recruiting Delay in training Delay to pilot phase/ implementation	AEO Project Manager / Human Resource AEO Project Manager / Training Directorate AEO Project Manager

Phase 9
Days 220 – 260
	Announce and Promote AEO Initiative
	- Initiate outreach campaign with FBR press office
	  • Within Customs and Government Departments
	  • Trade Community and General Public
	  • Other National Customs Administrations
	
	Communication/Outreach
	Issue Press Release
	Publicize awareness seminars for trade community and general public
	
	Other
	Awareness seminars for Customs staff
		AEO initiative announced and promoted
		
		Press release issued
		Awareness seminars delivered
		
		Awareness seminars delivered
		
		Awareness seminars delivered
			Delay in Phases 1-8
			
			Press release not issued
			Awareness seminars not delivered
			
			Awareness seminars not delivered
			
			Awareness seminars not
				Director General FBR / Director General Customs
				AEO Project Manager
				
				AEO Project Manager
				
				AEO Project Manager
				
				AEO Project Manager / Training Directorate
				AEO Project Manager /

Implementation AEO: Activity Plan / Roadmap				
Phase / Estimated Time frame	**Activity**	**Output**	**Risk**	**Management of Risk / Responsibility**
	Awareness seminars for other Government Departments Initiate contact with other Customs Administration regarding mutual recognition	Discussions initiated on possible mutual recognition	delivered Delay in discussions	Training Directorate AEO Project Manager
	PCA and AEO Implementation Team Select entities for pilot phase	Entities selected	Lack of interest Entities unwilling to participate Lack of suitable candidates regarding compliance	AEO Project Manager /PCA
Phase 10 Days 1 - 180	AEO Pilot Implementation **Communication/Outreach** Issue press release regarding AEO pilot initiative and those entities participating	Pilot implemented Press release issued	Delay in Phases 1-9 See Phase 9 – PCA and AEO Implementation Team	Director General FBR / Director General Customs AEO Project Manager AEO Project Manager
Phase 11 *subject to successful pilot phase	AEO implementation **Communication/Outreach** Issue press release regarding AEO pilot initiative and those entities participating	AEO implemented	Delay in Phases 1-10	Director General FBR / Director General Customs AEO Project Manager

Annex E: Example of AEO Self-Assessment Questionnaire

HM Revenue & Customs

AEO-Self Assessment Questionnaire

0.1
Please note, it is recommended that you read the European Commission's Authorised Economic Operator (AEO) Guidelines, TAXUD/B2/047/2011-Rev3 before applying for AEO status (you can access this via the European Commission's Europa website).

0.2
Which departments have you involved in the process to prepare your company for the AEO application including management?

1 Company information

1.1. General company information

1.1.1
State the name, address, date of establishment and legal form of the organisation of the applying company. Please include the URL of your company's website, if applicable

Name

Address

Date of establishment

Legal form

Website

If your company is part of a group, indicate if there are any other entities in the group:

a) already have an AEO certificate

No ☐   Yes ☐

b) have applied for AEO status and are currently undergoing an AEO audit by a national customs authority

No ☐   Yes ☐

1.1.2
Give the following details (if they apply to the legal form of your company):

a) Full details of the main shareholders including percentage shareholding held

b) Full details of the board members and/or managers

c) Full details of advisory board, if any and board of directors.
In the UK you need to supply the name(s) and NI number(s)
Details should include full name and address, date of birth and National Identification Number (for example, National ID Card number or National Insurance number)

1.1.3
Indicate the name of the person responsible for customs matters in the applicant's administration.
In the UK you need to supply the name(s) and NI number(s)

Details should include the full name and address, date of birth and National Identification Number (for example, National ID Card number or National Insurance number)

1.1.4
Briefly describe your commercial/business activity. Indicate your position(s) in the international supply chain (for example: manufacturer of goods, exporter, freight forwarder, warehousekeeper, customs broker, carrier, importer, consolidator, terminal operator, others). If you have more than one position include all

a) the individual locations of your company as a legal entity (indicate approximate number of employees in each department),

and

b) the locations where a third party executes outsourced activities for your company

1.1.5
Specify the locations, list the addresses, the name, the phone numbers and the email of contact points and give a brief description of the actions conducted in the following: (including other MS and third countries):

1.1.6
Do you buy from/sell to businesses with which you are associated?

No ☐   Yes ☐

1.1.7
Describe the internal organisational structure of your company and the tasks/responsibilities of each department

1.1.8
Give the names of senior management: (directors, heads of departments, head of accounting, head of customs department and so on) of the company and briefly describe the stand-in rules

---

1.1.9
How many employees do you have in your business?

1.1.10
a) Give the names and the position of persons within your company who have specific customs expertise

b) Briefly detail the level of knowledge of these persons regarding the use of IT technology in customs and commercial processes and general commercial matters

1.1.11

I hereby consent to the publication of the information in the AEO certificate in the list of authorised economic operators referred to in Article 14x (4) of the Customs Code Implementing Provisions (CCIP)

No ☐   Yes ☐

I also give consent for the exchange of the information in the AEO authorisation in order to ensure the implementation of international agreements with third countries on mutual recognition of the status of authorised economic operators and measures related to security

No ☐   Yes ☐   If 'Yes':

Signature

Capacity of signatory

The completed questionnaire should be signed by a director/managing partner/sole proprietor as appropriate

Date

1.2 Volume of business

1.2.1

a) Give the annual turnover figure for the last three sets of completed annual accounts. If a new business, state N/A

b) Provide the annual net profit or loss figure for the last three sets of completed annual accounts. If a new business, state N/A

1.2.2

If you use storage facilities and they are not owned by you indicate who you rent/lease the storage facilities from

1.2.3

For each of the following give an estimate of the number and value of the declarations you have made in each of the last three years. If a new business, state N/A

Import

Export/Re-export

Transit

1.2.4

For each of the following give an estimate of the total amount you have paid in each of the last three years. If a new business, state N/A

Customs Duty

Excise Duty

Import VAT

1.2.5

a) Do you foresee any structural changes in your company in the next two years?

No ☐   Yes ☐

If 'Yes' briefly describe the changes

b) Do you foresee any major changes in your supply chain for your company in the next two years?

No ☐   Yes ☐

If 'Yes', briefly describe the changes

1.3 Information and statistics on customs matters
(Guidelines Annex 2, Point 2.6)

1.3.1

Answer the following questions:

a) Do you perform customs formalities in your own name and for your own account?

No ☐   Yes ☐

b) Are you being represented by someone regarding customs formalities?

No ☐   Yes ☐

If 'Yes', by whom and how (directly or indirectly)? Include the name, address and EORI number of the representative

c) Do you represent other persons in customs formalities?

No ☐   Yes ☐

If 'Yes', who and how (directly or indirectly)? (Name the most significant companies)

1.3.2
a) How, and by whom, is the tariff classification of goods decided?

b) What quality assurance measures do you take to ensure that tariff classifications are correct (for example, checks, plausibility checks, internal working instructions, regular training)?

c) Do you keep notes on these quality assurance measures?

No ☐   Yes ☐

d) Do you regularly monitor the effectiveness of your quality assurance measures?

No ☐   Yes ☐

e) What resources do you use for tariff classification (for example, database of standing data on goods)?

1.3.3
a) How and by whom is the customs value established?

b) What quality assurance measures do you take to ensure that the customs value is correctly established (for example, checks, plausibility checks, internal working instructions, regular training, other means)?

c) Do you regularly monitor the effectiveness of your quality assurance measures?

No ☐   Yes ☐

d) Do you keep notes on these quality assurance measures?

No ☐   Yes ☐

1.3.4
a) Give an overview of the preferential or non-preferential origin of the imported goods.

b) What internal actions have you implemented to verify that the country of origin of the imported goods is declared correctly?

c) Describe your approach in the issuing of proof of preferences and certificates of origin for exportation

1.3.5
Do you deal in goods subject to anti-dumping duties or countervailing duties?

No ☐   Yes ☐

If 'Yes', provide details of the manufacturer(s) or countries outside the EU whose goods are subject to the above duties

2 Compliance record
(Article 5a of the CCC, Article 14h CCIP, Annex 1 of the explanatory notes (Annex 1C CCIP), Guidelines Part 2, point 2.1, Annex 2, point 1)

2.1
a) Have breaches of customs rules been detected within your company or by the customs authorities in the last three years? If a new business, state N/A

If 'Yes', briefly describe the breaches

b) How you have notified breaches to the relevant governmental authorities and what quality assurance measures were introduced to avoid such breaches in future?

Do you keep notes on these quality assurance measures?

No ☐   Yes ☐

2.2
Have any applications for authorisations/certifications been refused, or existing authorisations been suspended or revoked because of breaches of customs rules in the last three years?

No ☐   Yes ☐

If a new business, state N/A

If 'Yes', how many and what were the reasons?

3 Accounting and logistical system
(Article 5a of the CCC, Article 14i CCIP, Guidelines Part 2, point 2.2, Annex 2)

3.1 Audit trail
(Guidelines Annex 2, point 2.2)

3.1.1
Does your accounting system facilitate a full audit trail of your customs activities or tax relevant movement of goods or accounting entries?

No ☐   Yes ☐

If 'Yes', describe the essential features of this audit trail

3.2 Accounting system
(Guidelines Annex 2, point 2.1)

3.2.1
What computer system (hardware/software) do you use for your business in general, and for customs matters in particular? Provide information on the following:

– separation of functions between development, testing and operation

– separation of functions between users

– access controls (which ones/to whom)

– traceability between business system and declaration system

5

3.2.2
Are your accounting systems capable of distinguishing between Community and non-Community goods?

No ☐   Yes ☐

If 'Yes', give details

3.2.3
a) At what location are your computer activities undertaken?

b) Have computer applications been outsourced?

No ☐   Yes ☐

If 'Yes', to which company were the applications outsourced and how do you manage access controls for the outsourced applications?

3.3 Internal control system
(Guidelines Annex 2, point 2.4)

3.3.1
Do you have in house guidelines for the internal control system in the accounts department, buying department, sales department, customs department, production, material and merchandise management and logistics?

No ☐   Yes ☐

If 'Yes', describe them briefly and how they are updated. For example, actions like job instructions, employee training, instructions for checking faults and mechanism for proofreading

3.3.2
Have your internal control processes been subject to any internal/external audit?

No ☐   Yes ☐

Does this include audit of your customs routines?

No ☐   Yes ☐

If 'Yes', provide a copy of your most recent audit report.

3.3.3
Briefly describe your procedures for checking your computer files (standing data or master files). How do these procedures cover the following risks from your perspective?

a) Incorrect and/or incomplete recording of transactions in the accounting system

b) Use of incorrect permanent or out-of-date data such as number of articles and tariff codes

c) Inadequate control of the company processes within the applicant's business

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3.4 Flow of goods
(Guidelines Annex 2, point 2.5)

3.4.1
Briefly describe the registration procedure (physically and in the records) for the flow of materials starting with the arrival of the materials, the storage up to manufacture and shipment. Who keeps records and where are they kept?

3.4.2
Briefly describe the procedures in place for checking stock levels, including the frequency of those checks and how are discrepancies handled, for example, stocktaking and inventory?

6

3.5 Customs routines
(Guidelines Annex 2, point 2.6)

3.5.1
Do you have documented procedures for verifying the accuracy of customs declarations, including those submitted on your behalf, for example, by a customs agent or a freight forwarder?

No ☐   Yes ☐

If 'Yes', briefly describe the procedures

If 'No', do you verify the accuracy of customs declaration?

No ☐   Yes ☐

If 'Yes', in what way?

3.5.2
a) Does your company have instructions or guidelines on the notification of irregularities to the competent authorities (for example, suspicion of theft, burglary or smuggling in connection with customs-related goods)?

No ☐   Yes ☐

Are these instructions documented, for example, work instructions, manuals, other guidance documents?

No ☐   Yes ☐

b) Over the last year, have you detected any irregularities (or presumed irregularities) and notified them to the competent authorities?

No ☐   Yes ☐

3.5.3
Do you trade in goods that are subject to economic trade licences, for example, textiles, agricultural goods?

No ☐   Yes ☐

If 'Yes', briefly describe your procedures for administering the licences related to the import and/or export of such goods.

3.6 Procedures for back-up, recovery and fallback and archiving
(Guidelines Annex 2, point 2.7)

3.6.1
Briefly describe your procedures for back-up, recovery, fallback, archiving and retrieval of your business records

3.6.2
How long is the data saved in the production system and how long is this data archived?

3.6.3
Does the company have a contingency plan for system disruption/failure?

No ☐   Yes ☐

3.7 Protection of computer systems
(Guidelines Annex 2, point 2.8)

3.7.1
a) Briefly describe the actions you have taken in order to protect your computer system from unauthorised intrusion, for example, firewall, antivirus programme, password protection?

b) Has any intrusion testing been carried out, what were the results and were any corrective measures taken?

3.7.2

a) Briefly describe how access rights for the computer systems are issued?

b) Who is responsible for the running and protection of the computer system?

3.7.3

a) Where is your main server located?

b) Give details of how your main server is secured

3.8 Documentation security
(Guidelines Annex 2, point 2.9)

3.8.1

Briefly describe what actions have been taken in order to protect information/documents from unauthorised access, abuse, intended destruction and loss (for example, constricted access rights, creation of electronic backup)?

3.8.2

Have there been any cases of unauthorised access to documents in the last year, and if so what measures have been taken to prevent this from happening again?

3.8.3

Briefly answer the following questions:

a) Which categories of employees have access to detailed data about the flow of materials and goods?

b) Which categories of employees are authorised to change this data?

Are changes comprehensively documented?

No ☐   Yes ☐

3.8.4

Briefly describe what requirements regarding security and safety you require from your trade partners and other contact persons in order to avoid abuse of information, for example, endangering of the supply chain through unauthorised transfer of shipping details?

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4 Financial solvency
(Article 5a of the CCC, Article 14j CCIP, Guidelines Part 2, point 2.3, Annex 2, point 3)

4.1

Have any insolvency proceedings been initiated in respect of your company's assets in the last three years?

No ☐   Yes ☐

If 'Yes', provide details

4.2

Has your company had a consistently good financial standing within the meaning of Article 14j of the CCIPs, sufficient to meet its financial commitments, over the last three years?

No ☐   Yes ☐

If 'Yes', provide evidence such as a letter from your auditors or an audited report, a copy of your finalised accounts (if your accounts have not been audited), evidence from your bank or financial institution.
If 'No', supply full details.

8

4.3

If you are a newly established business, provide all records and information in relation to your financial status. For example, latest cash flow, balance sheet and profit and loss forecasts approved by the directors/partners/sole proprietor.

4.4

Is there anything you are aware of that could impact on your financial solvency in the foreseeable future?

No ☐   Yes ☐

If 'Yes', give details

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5 Security and safety requirements
(Article 5a of the CCC, Article 14k CCIP, Guidelines Part 2, point 2.4)

5.1 Self Assessment
(Guidelines Annex 2, point 4.1)

5.1.1
a) Have you carried out a risk and threat assessment for your business?

No ☐   Yes ☐

b) Is there a security plan in place for each site, where appropriate?

No ☐   Yes ☐

How often are those documents reviewed and updated?

5.1.2
Briefly describe what security risks (within the company or in your business dealings with customers, suppliers and external service providers) you have identified in relation to the AEO security criteria?

5.1.3
How are security measures implemented and coordinated in your company and who is responsible for them?

5.1.4
If you have several premises in your company, is the implementation of the security measures harmonised in all of these locations?

No ☐   Yes ☐

5.1.5
a) Do you have any security instructions? How are they communicated to your staff and people visiting your company premises?

b) How are they documented (manual, work guidelines, information sheet, etc.)?

5.1.6
a) Have you had any security incidents over the last year?

No ☐   Yes ☐

If 'Yes', give a brief description of the incidents and what measures you have introduced to prevent them from re-occurring?

b) Do you keep records of security incidents and the measures taken?

No ☐   Yes ☐

5.1.7
a) Have you already been certified by another public agency or authority for (transport) security purposes?

No ☐   Yes ☐

If 'Yes', provide a copy of the certificate and give details of the premises/locations, which are covered by the certificate

b) Provide a list of any independently accredited standards/licences/authorisations that you adhere to and specify what control/audits these standards are subject to

5.1.8
Are there particular security and safety requirements for the goods you are importing/exporting?

5.1.9

a) Do you use the services of a security company? If so, which company do you use?

b) Has this company made a threat assessment of your company? If so, describe briefly what security risks they have identified in relation to the AEO security criteria

5.1.10

Do your customers or insurance company impose any safety and security requirements on you?

No ☐   Yes ☐

If 'Yes', provide details

5.2 Access to premises
(Guidelines Annex 2, point 4.2)

5.2.1

a) Briefly describe how the process of access to your premises (buildings, production areas, warehouses, etc.) is regulated for staff, visitors, other persons, vehicles and goods?

b) Who checks that the prescribed procedures are complied with?

5.2.2

a) Describe the procedures that are to be followed if an unauthorised person/vehicle is discovered on company premises, for example, grounds or buildings?

b) How are these procedures communicated to staff (for example, action plan, manual, working guidelines, training)?

5.2.3

Present a site plan for each location of your company that are involved in customs related activities (for example, layout plan, draft) from which the frontiers, access routes and the location of the buildings can be identified, if available.

5.2.4

Name, if appropriate, the companies (for example, outside companies, outsourced company parts) that are also located at the premises of each location

5.3 Physical security
(Guidelines Annex 2, point 4.3)

5.3.1

a) Give a brief description of how the external boundary of your company's premises is secured. How is compliance with these procedures checked?

b) How, by whom and at what intervals are checks carried out on the fences and buildings? How are these checks and their results recorded?

c) How are security incidents reported and dealt with?

5.3.2

Answer the following questions:

a) What access possibilities exist?

b) How are these observed?

Are there limitations in the opening hours of each access?

5.3.3

Are the premises adequately illuminated (for example, continuous light, movement sensors, twilight switch)?

5.3.4

How is the administration of keys handled in your company (for example, location, access, logging)?

Does written documentation exist for this?

No ☐   Yes ☐

10

5.3.5
Answer the following questions:

a) Is the parking of private vehicles permitted on the premises?

No ☐   Yes ☐

b) If 'Yes', for which persons?

c) Who gives the approval?

d) Are the vehicles checked (at the entrance to the premises or at the car park entrance)?

No ☐   Yes ☐

Do written regulations exist?

No ☐   Yes ☐

5.4 Cargo units (as containers, swap bodies, transport boxes)
(Guidelines Annex 2, point 4.4)

5.4.1
Is access to cargo units subject to rules/restrictions?

No ☐   Yes ☐

If 'Yes', how are such restrictions enforced?

5.4.2.
Briefly describe what measures are in place to prevent unauthorised access to and tampering with cargo units (particularly in open storage areas, for example, constant supervision, training staff and making them aware of risks, seals, instructions on procedures to follow in the case of unauthorised entry)?

5.4.3
a) Do you use seals to prevent unauthorised tampering with goods? If you do, what kind?

Do these seals satisfy any specific standards (for example, ISO)?

b) How do you ensure that goods are not tampered with if seals are not used?

5.4.4
What control measures do you use for checking cargo units (for example, seven-point inspection process: front wall, left side, right side, floor, covering/roof, inside/outside of doors, outside/undercarriage)?

5.4.5
Answer the following questions:

a) Who is the owner/operator of the cargo units?

b) Who maintains/repairs the cargo units?

c) Are there regular maintenance plans?

No ☐   Yes ☐

Are external maintenance works checked?

No ☐   Yes ☐

5.5 Logistical processes
(Guidelines Annex 2, point 4.5)

5.5.1
a) Which means of transport are normally used by your company?

b) Does your company carry out all its own transport, or does it also use external service providers (for example, freight forwarders/carriers)?

c) How do you establish whether the freight forwarder/carrier meets the required security standards (for example, by means of a security certificate, declarations or agreements)?

d) Do you take other measures for outsourced transport activities with a view to meeting security standards?

No ☐   Yes ☐

If appropriate, outline the nature and scope of your measures in this respect

5.6 Non-fiscal requirements
(Guidelines Annex 2, point 4.6)

5.6.1.
a) Do you deal with dual-use goods and/or goods for which import licenses are required or goods that are subjected to export restrictions or embargoes or other non-fiscal requirements?

No ☐   Yes ☐

If 'Yes', describe briefly what procedures you use to ensure compliance with the relevant provisions regarding these goods (for example, management of licences, authorisations, special responsibilities, specially trained staff, etc.)?

b) Are there special working instructions, manuals, or other guidelines in your company regarding such goods?

No ☐   Yes ☐

5.7 Incoming goods
(Guidelines Annex 2, point 4.7)

5.7.1
a) Briefly describe the procedure for ensuring the security and safety of incoming goods?

b) Briefly describe how the compliance with these procedures is checked?

5.7.2
Are your employees informed about security arrangements with suppliers, and how is compliance ensured?

5.7.3
a) Briefly describe how checks on the integrity of the seals on incoming goods are conducted?

b) Are incoming goods sealed, if appropriate?

No ☐   Yes ☐

If 'Yes', what routines/measures are in place?

5.7.4
Are the incoming goods uniformly marked or stored in separate areas?

No ☐   Yes ☐

If 'Yes', how are they marked/where are they stored?

5.7.5
Briefly describe briefly the process for counting and weighing incoming goods?

5.7.6
Briefly describe how, when and by whom incoming goods are checked against the accompanying documents and entered in your records?

5.7.7
a) Are the sections responsible for the purchase of goods, the receipt of goods and general administration clearly separated?

No ☐   Yes ☐

b) Do integrated internal control mechanisms exist between the sections?

No ☐   Yes ☐

If 'Yes', how are they executed?

5.8 Storage of goods
(Guidelines Annex 2, point 4.8)

5.8.1
Describe at which locations you have set aside areas for the storage of goods?

5.8.2
a) Briefly describe the routine for allocating a storage position for incoming goods

b) Do you have outdoor storage locations?

No ☐   Yes ☐

If 'Yes', describe them briefly

5.8.3
Do you have documented procedures for stocktaking and dealing with irregularities detected during stocktaking?

No ☐   Yes ☐

If 'Yes', describe your arrangements in brief

5.8.4
Are goods of different risk levels stored separately?

No ☐   Yes ☐

a) Describe the criteria for any separate storage, for example, hazardous goods, high-value goods, chemicals, weapons?

b) Describe how you ensure that the goods are immediately recorded in the logistical accounts/stock records?

5.8.5
a) Briefly describe how goods are protected against unauthorised access to the warehousing premises?

b) Briefly describe how compliance with these procedures is checked?

5.8.6
If storage of goods is outsourced to a third party/service provider, briefly describe how and where the goods are stored and your control measures you use to supervise the handling of goods

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5.9 Production of goods
(Guidelines Annex 2, point 4.9)

5.9.1
a) Briefly describe what locations/areas are designated for the production of goods?

b) If production is carried out by an external partner (for example, job processing, drop shipments), briefly describe how the integrity of the goods is ensured (for example, contractual agreements)?

5.9.2
Are there any security measures protecting goods against unauthorised access to the production zone?

No ☐   Yes ☐

If 'Yes', describe briefly what these measures are and whether they exist in written form. Briefly describe how compliance with these procedures is checked?

5.9.3
Briefly describe the procedures for packing products and whether they exist in written form

5.9.4
If final product packaging is outsourced to a third party, briefly describe how the integrity of the goods is guaranteed?

5.10 Loading of goods
(Guidelines Annex 2, point 4.10)

5.10.1
a) Briefly describe how loading of goods is managed in your company (for example, allocation of responsibilities, checks on goods, and means of transport, recording of results, provision of information, etc.)?

b) Are there any written instructions on how the process should be organised?

No ☐   Yes ☐

5.10.2
a) Are outgoing goods or vehicles sealed?

No ☐   Yes ☐

If 'Yes', how, by whom and what sort of seals do you use?

b) Are any seal numbers mentioned in the documents accompanying the goods?

c) How do you keep a record of your seals?

5.10.3
Briefly describe how compliance with customers' security requirements for loading is guaranteed?

5.10.4
Briefly describe the arrangements that are in place which ensures that goods to be loaded and the loading process are not left unsupervised

5.10.5
Are the outgoing goods checked for completeness (for example, counted, weighed)?

No ☐   Yes ☐

If 'Yes', how and by whom?

5.10.6
Briefly describe how, when and by whom departing goods are checked against orders and loading lists and recorded out of the stock records?

5.10.7
Briefly describe what control mechanisms you have in place for detecting irregularities concerning the loading of goods?

5.11 Security requirements for business partners
(Guidelines Annex 2, point 4.11)

5.11.1
a) Briefly describe what security and safety requirements you apply when choosing business partners (for example, security declarations, contractual requirements, trade partners with own AEO status)?

b) Briefly describe how compliance with these procedures is checked?

5.11.2
Briefly describe how your company verifies the identity of trade partners in order to secure the supply chain (information search before accepting orders or placing orders)?

5.11.3
Over the last year, have you detected any breaches of the security agreements you have with partners?

No ☐   Yes ☐

If 'Yes', what measures have you taken?

5.12 Personnel security
(Guidelines Annex, point 4.11)

5.12.1
a) Briefly describe how your employment policy deals with security and safety requirements? Who is responsible for this area?

b) Are the security procedures recorded in writing?

No ☐   Yes ☐

c) Briefly describe how compliance with these procedures is checked?

5.12.2
To what extent are the following types of employees subjected to security checks (for example, police checks to confirm that he/she has no criminal record)?

a) New employees who will be working in security-sensitive fields

b) Existing employees who are to be transferred into security-sensitive fields

How is it ensured that when staff leave, they no longer have any physical or electronic access to company premises or data?

5.12.3
Is security and safety training provided for employees?

No ☐   Yes ☐

If 'Yes':

a) What is the frequency of security and safety training?

b) Do you have yearly refresher training?

No ☐   Yes ☐

c) Is this training internal or provided by an external supplier?

d) Are there written records on this training?

No ☐   Yes ☐

5.12.4

Answer the following questions:

a) Specify the areas where temporary employees are used

b) Are these employees checked regularly according to security standards?

No ☐   Yes ☐

If 'Yes', how and by whom?

Are there also security instructions for these employees?

No ☐   Yes ☐

5.13 External services
(Guidelines Annex 2, point 4.13)

5.13.1

Do you use any 'external services' under contract, such as transportation, security guards, cleaning, supplies, maintenance, etc.?

No ☐   Yes ☐

If 'Yes':

a) Briefly describe what services they provide, and to what extent (for the ones that have not been described in the previous sections)?

b) Are there written agreements with the external service providers containing security requirements?

No ☐   Yes ☐

c) Briefly describe how compliance with the procedures included in these agreements is checked?

Annex F: Example of AEO Application Form

HM Revenue & Customs

Application for Authorised Economic Operators (AEO) Certificate

| 1 | Name of applicant |

| 2 | Legal status of the applicant as given in the document of establishment |

| 3 | Date of establishment |

| 4 | Full address where the entity was established *including country* |

| 5 | Full address where the main activities of the business are carried out *including country* |

| 6 | Designated contact within the company
To be the point of contact for HMRC about the application
Name

Phone number

Fax number

Email |

| 7 | Full correspondence address if different from establishment address *including country* |

| 8 | VAT identification number(s) |

| 9 | Trader Identification number(s) registered by the customs authority/authorities. This will be the Economic Operator Registration and Identification number (EORI) |

| 10 | Legal registration number(s) given by the company registration office (if different from VAT identification number) |

| 11 | Type of AEO certificate required

Enter 'x' in appropriate box

☐ Customs simplifications

☐ Security and safety

☐ Customs simplifications/security and safety |

| 12 | The nature of the economic activity carried out by the company |

| 13 | Member state(s) where customs related activities are carried out

Enter the ISO alpha-2 country code(s) |

C117

14 Enter the names of customs offices regularly used for border crossings

15 Simplifications or facilitations already granted and certificates mentioned in Article 14k(4) of EC regulation 1875/2006.

If a simplification has already been granted, enter the type of simplification, the code* for the relevant customs procedure and the authorisation number.

*As used in the 2nd or 3rd subdivision of box 1 of the single administrative document.

For facilities already granted, enter the number of the certificate

If the applicant is the holder of one or more certificates mentioned in Article 14k, enter the type and the number of the certificate(s)

Entries 16-18
If the offices have the same address you only need to complete box 16

16 Full address of the office where the customs documentation is kept

17 Full address of the office responsible for providing all customs documentation

18 Full address of the office where the full accounts are kept

19 Name of applicant

Signature of the person who represents the applicant as a whole

Date

Enter the number of annexes submitted with the application